

DOCKET SECTION
**OFFICIAL TRANSCRIPT OF PROCEEDINGS
BEFORE THE
POSTAL RATE COMMISSION**

In the Matter of:)
) Docket NO.: R2006-1
POSTAL RATE AND FEE CHANGES)

VOLUME #20

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POSTAL RATE COMMISSION

In the Matter of:)
)
POSTAL RATE AND) Docket No.: R2006-1
FEE CHANGES /

Suite 200
Postal Rate Commission
901 New York Avenue, N.W.
Washington, D.C.

Volume 20
Tuesday, October 24, 2006

The above-entitled matter came on for hearing pursuant to notice, at 9:35 a.m.

BEFORE :

HON. GEORGE A. OMAS, CHAIRMAN
HON. DAWN A. TISDALE, VICE-CHAIRMAN
HON. RUTH Y. GOLDWAY, COMMISSIONER
HON. TONY HAMMOND, COMMISSIONER
HON. MARK ACTON, COMMISSIONER

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C O N T E N T S

WITNESSES APPEARING:

KATHRYN L. KOBE
 LAWRENCE G. BUC
 PAMELA A. THOMPSON

<u>WITNESSES :</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Kathryn L. Kobe	7054	--	--	--	--
By Mr. Brinkmann	--	7181	--	--	--
By Mr. Levy	--	7187	--	--	--
By Mr. Hall	--	7212	--	--	--
By Ms. McKenzie	--	7259	--	--	--
Lawrence G. Buc	7278	--	--	--	--
By Mr. Heselton	--	7322	--	--	--
Pamela A. Thompson	7351	--	--	--	--
By Mr. Brinkmann	--	7393	--	--	--
By Mr. Tidwell	--	7410,	--	--	--
		7425			
By Mr. Hall	--	7411	--	--	--
By Mr. Scanlon	--	7419	--	--	--
By Mr. Anderson	--	7433	--	--	--

C O N T E N T S

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E X H I B I T S

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(9:35 a.m.)

Does anyone have a procedural matter to discuss before we continue this morning?

At this time, we will have no oral cross-examination, but we'd like to reserve our right to ask follow-up questions.

Three witnesses are scheduled to appear today. They are Witnesses Kobe, Buc and Thompson.

MR. ANDERSON: Ms. Kobe, could you state your name please for the record?

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1 Whereupon,

2 KATHRYN L. KOBE

3 having been duly sworn, was called as a
4 witness and was examined and testified as follows:

5 CHAIRMAN OMAS: Please be seated.

6 (The document referred to was
7 marked for identification as
8 Exhibit No. APWU-T-1.)

9 DIRECT EXAMINATION

10 BY MR. ANDERSON:

11 Q Ms. Kobe, state your name for the record,
12 please.

13 A Kathryn L. Kobe.

14 Q Ms. Kobe, before you are two copies of a
15 document entitled Revised Direct Testimony of Kathryn
16 L. Kobe on behalf of the American Postal Workers
17 Union, AFL-CIO. It's been designated for the record
18 in this proceeding as APWU-T-1. Is that your
19 testimony, Ms. Kobe?

20 A Yes, it is.

21 Q And if you were to testify orally today and
22 provide that testimony, would it be the same?

23 A Yes, it would.

24 Q Are there any changes you wish to make to
25 this document at this time other than the revisions

1 made on October 12, 2006, which are already reflected
2 in the testimony?

3 A No. Those changes reflect the last changes
4 to the testimony.

5 Q Ms. Kobe, did you sponsor any library
6 references with your testimony?

7 A I did. Library Reference APWU-1 and Library
8 Reference APWU-2.

9 MR. ANDERSON: Mr. Chairman, at this time
10 the APWU moves for the admission of Ms. Kobe's oral
11 direct testimony and her Library References 1 and 2.

12 CHAIRMAN OMAS: Is there any objection?

13 (No response.)

14 CHAIRMAN OMAS: Hearing none, I will direct
15 counsel to provide the reporter with two copies of the
16 corrected direct testimony of Kathryn Kobe.

17 That testimony is received into evidence.
18 However, consistent with our earlier discussion it
19 will not be transcribed.

20 (The document referred to,
21 previously identified as
22 Exhibit No. APWU-T-1, was
23 received in evidence.)

24 CHAIRMAN OMAS: Ms. Kobe, have you had an
25 opportunity to examine the packet of designated

1 written cross-examination that was made available to
2 you in the hearing room this morning?

3 **THE WITNESS:** I have.

4 **CHAIRMAN OMAS:** If those questions contained
5 in that packet were proposed to you orally today,
6 would your answers be the same as those you provided?

7 **THE WITNESS:** They would. There has been
8 one typographical correction made to ABA-NAPM/APWU-T1-
9 1. On Answer (e), the word "no" has been turned to
10 "not", and that correction has been made in the copies
11 to be given to the reporter.

12 **CHAIRMAN OMAS:** Are there any additional
13 corrections or additions you would like to make to
14 those answers?

15 **THE WITNESS:** No.

16 **CHAIRMAN OMAS:** Counsel, would you please
17 provide two copies of the corrected designated written
18 cross-examination of Witness Kobe to the reporter?

19 That material is received into evidence and
20 is to be transcribed into the record.

21 (The document referred to was
22 marked for identification as
23 Exhibit No. **APWU-T-1** and was
24 received in evidence.)

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS KATHRYN L. KOBE
(APWU-T-1)

Party

Interrogatories

Major Mailers Association

ABA-NAPMIAPWU-TI-1
MMA/APWU-T1-1-4, 6-12, 14-31
NAPMIAPWU-TI-1-2

National Association of Presort
Mailers

ABA-NAPMIAPWU-TI-1, 3-5, 7-13
NAPM/APWU-TI-4-6

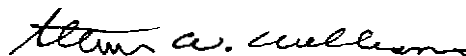
Pitney Bowes Inc.

NAPMIAPWU-TI-1-6

United States Postal Service

ABA-NAPMIAPWU-TI-2
MMA/APWU-T1-5, 32
USPS/APWU-T1-1-10

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
 AMERICAN POSTAL WORKERS UNION, AFL-CIO
 WITNESS KATHRYN L. KOBE (T-I)
 DESIGNATED **AS** WRITTEN CROSS-EXAMINATION

InterrogatoryDesianatina Parties

ABA-NAPM/APWU-T1-1	MMA, NAPM
ABA-NAPM/APWU-T1-2	USPS
ABA-NAPM/APWU-T1-3	NAPM
ABA-NAPM/APWU-T1-4	NAPM
ABA-NAPMIAPWU-T1-5	NAPM
ABA-NAPM/APWU-T1-7	NAPM
ABA-NAPM/APWU-T1-8	NAPM
ABA-NAPM/APWU-T1-9	NAPM
ABA-NAPM/APWU-T1-10	NAPM
ABA-NAPMIAPWU-T1-11	NAPM
ABA-NAPM/APWU-T1-12	NAPM
ABA-NAPM/APWU-T1-13	NAPM
MMNAPWU-TI-1	MMA
MMNAPWU-TI-2	MMA
MMNAPWU-TI-3	MMA
MMA/APWU-T1-4	MMA
MMA/APWU-T1-5	USPS
MMA/APWU-T1-6	MMA
MMA/APWU-T1-7	MMA
MMA/APWU-T1-8	MMA
MMA/APWU-T1-9	MMA
MMA/APWU-T1-10	MMA
MMA/APWU-T1-11	MMA
MMAIAPWU-TI-12	MMA
MMNAPWU-TI-14	MMA
MMNAPWU-TI-15	MMA
MMAIAPWU-TI-16	MMA
MMA/APWU-T1-17	MMA
MMA/APWU-T1-18	MMA
MMA/APWU-T1-19	MMA
MMA/APWU-T1-20	MMA
MMNAPWU-TI-21	MMA

Interrogatory

MMA/APWU-T1-22
MMNAPWU-TI-23
MMNAPWU-TI-24
MMNAPWU-TI-25
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MMNAPWU-TI-31
MMA/APWU-T1-32
NAPMIAPWU-TI-1
NAPMIAPWU-TI-2
NAPMIAPWU-TI-3
NAPM/APWU-T1-4
NAPM/APWU-T1-5
NAPMIAPWU-TI-6
USPSIAPWU-TI-1
USPSIAPWU-TI-2
USPSIAPWU-TI-3
USPSIAPWU-TI-4
USPSIAPWU-TI-5
USPSIAPWU-TI-6
USPSIAPWU-TI-7
USPSIAPWU-TI-8
USPSIAPWU-TI-9
USPSIAPWU-TI-10

Designating Parties

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MMA, Pitney Bowes
MMA, Pitney Bowes
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RESPONSES OF AMERICAN POSTAL WORKERS UNION, LOCAL 100, WITNESS
 RYAN KOBE TO INTERVIEW OF ABA/NAPM
 dated October 24, 2006

T1 In your response to the question, you indicate that you are not sure how First-Class presort mailers will adjust their proposed rates, but that you chose your proposed Presort rates so that they averaged an increase of 8.8%, which is comparable to the overall average increase proposed by the Postal Service in this case. You also note that First-Class rates were recently raised by 5.4%, yet volumes still grew at 3% so far this year.

- (a) Please confirm that the recent 5.4% increase was an "across-the-board" increase. Please explain any failure to confirm.
- (b) Please confirm that the recent 5.4% increase had no effect on the relative Presort discounts among the various presort levels. Please explain any failure to confirm.
- (c) Please confirm that the recent 5.4% increase had no effect on the absolute rate differentials between Single Piece and Presorted mail. Please explain any failure to confirm.
- (d) Please confirm that your proposed rates would not only affect the relative Presort discounts among the various presort levels but also have a significant effect on the absolute rate differentials between Single Piece and Presorted mail. Please explain any failure to confirm.
- (e) Please confirm that presort bureaus rely on the absolute rate differences between Single Piece and Presort rates, i.e., the amount of discounts from the Single Piece basic rate, to provide a monetary incentive to their customers to engage their services. Please explain any failure to confirm.

Response:

- (a) Confirmed.
- (b) confirmed that each of the presort rates went up by approximately 5.4%

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF ABNNAPM

Revised October 24, 2006

- (c) Not confirmed. The absolute difference (in cents) between the Single Piece rate and the Presort rates increased by **4.9%-5.8%** depending on the rate. Please see the following table.

	Rate Before R2005-1	Rate After R2005-1	Percent Change	Discount from SP Before	Discount from SP After	Percent Change
Single Piece	37	39	5.4%			
Nonauto Presort	35.2	37.1	5.4%	1.8	1.9	5.6%
Mixed AADC Auto	30.9	32.6	5.5%	6.1	6.4	4.9%
AADC Auto	30.1	31.7	5.3%	6.9	7.3	5.8%
3-Digit Auto	29.2	30.8	5.5%	7.8	8.2	5.1%
5-Digit Auto	27.8	29.3	5.4%	9.2	9.7	5.4%
Carrier Route	27.5	29.0	5.5%	9.5	10.0	5.3%

- (d) Confirmed.
- (e) I do not know the specifics of Presort Bureaus' agreements with their customers.

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KATHRYN KOBE TO INTERROGATORIES OF ABNNAPM

ABA-NAPMIAPWU-TI-2. In your testimony at page 6, you state that "The First-Class bulk metered mail letter is chosen as the benchmark because it is most like the workshared mail in its general characteristics." At page 14, you elaborate by saying that: "There have been many discussions about the use of BMM as the benchmark for cost avoided calculations." Some of these discussions have revolved around which mail is most likely to convert to presort and others have focused on the mail that presort mail would most likely convert to if it left the workshare category.

- (a) Please confirm that a major reason for using the traditional Bulk Metered Mail benchmark is that it has been considered the mail most likely to be workshared. If you do **not** confirm, please explain. Please explain any failure to confirm.
- (b) Please refer to Dr. Panzar's testimony (PB-T-I) at pages 36-37, where he summarizes a recent paper of his as follows:

The basic theoretical result was that an efficient allocation of mail processing activity between the Postal Service and mailers requires a worksharing discount equal to the average Postal Service processing cost of the type of mail just at the margin of being profitable for mailers to workshare. This suggests that the previous methodology of basing discounts based upon the avoided processing cost of mail most likely to be workshared, is likely to lead to discounts too low to result in an efficient allocation of mail processing activity.

Please reconcile this result of Dr. Panzar's with your use of the traditional BMM benchmark.

Response:

- (a) That is one reason that has been mentioned; however, it has also been considered the mail most like workshared mail but without the worksharing activities having been performed.
- (b) Dr. Panzar is stating a theoretical result and makes specific assumptions in his analysis. However, it is difficult to reconcile his results with the Commission's goal of not increasing the costs of residual or nonworksharing mailers. If the discounts are based solely on the costs associated with the mail that will convert at the margin, then the least expensive mail already

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
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being workshared gets an extra discount for no effort. That **loss** of overhead coverage must be made up and will cost the nonworkshare mailers more. In a system where the cheapest mail is likely to move to worksharing, each cycle will ratchet the discount up to cover the next set of potential converttees. produce additional leakage from mailers already worksharing and cause increased costs to fall on the residual mailer. This is not how the Commission **or the** Postal Service has perceived the goal of workshare discounts in the past. **It** would move further away from the concept of uniform rates and would constitute a major policy change for the Postal Service.

ABA-NAPMIAPWU-TI-3. At page 12 of your testimony, you state that:

The revenue impact of these changes has been estimated by using Mr. Thress's worksheets to estimate the volume impacts on all classes of mail from the proposed rate changes in First-class and then recalculating the resulting revenues for First-class and Standard based on the new proposed rates (if applicable) and the revised volumes generated from these rates.

- (a) Please confirm that Mr. Thress's procedures for estimating both First-class Single-Piece and Presort volume impacts from proposed First-Class letter rate changes incorporate a factor for the average First-class worksharing letter discount, and that his Single-Piece letter elasticity for this factor is equal to -0.096. Please explain any failure to confirm.
- (b) Please confirm that the negative sign of this elasticity means that, with other factors constant, an increase in the average worksharing discount would cause a *decrease* in First-class Single-Piece volume. Please explain any failure to confirm.

Response:

- (a) Confirmed.
- (b) Confirmed.

ABA-NAPM/APWU-T1-4. In your response to MMA/APWU-T1-6, you noted that Presort volume has grown 3.5% year-todate in FY 2006.

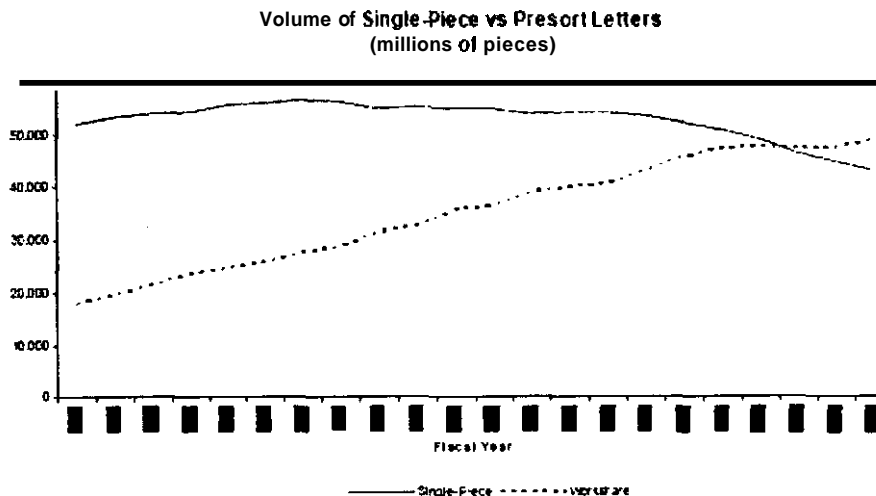
- (a) Please confirm, based on Postal Service Library Reference USPS-LRL-**74**, that the cumulative volume growth of First-class Presort mail for the 2000- 2005 period was about **7.4%**, or about 1.4% on average per year. Please explain any failure to confirm.
- (b) Please confirm that the Consumer Price Index (CPI-U) increased by **14.5** percent, or an average of 2.7 percent per year, during the Postal Service's Fiscal Years 2000-2005 (Sept. 2000 through Sept. **2005**), according to Bureau of Labor Statistics data (<ftp://ftp.bls.gov/pub/special.requests/cpilcpiai.txt>) Please explain any failure to confirm.
- (c) Please confirm that the rate of growth of Presort First Class Mail was less than the rate of inflation. Please explain any failure to confirm.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed that the rate of increase in Presort First Class Mail volume was less than the increase in consumer prices as measured by the CPI-U.

ABA-NAPM/APWU-T1-5.

- (a) Please confirm that during the 2000-2005 period, First-class Single-Piece mail volume declined about 18.2%, or about 3.3% annually. Please explain any failure to confirm.
- (b) Please consider the following graph, which depicts data from the Postal Service's Library reference USPS-LR-L-74M:



Please confirm that there is now more Presort letter mail in First Class than Single-Piece mail. Please explain any failure to confirm

Response:

- (a) Not confirmed, by my calculations it declined 17.2% during this time period.
- (b) Confirmed.

**RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF ABNNAPM**

7061

ABA-NAPMIAPWU-TI-7. Please produce all available documentation (e.g., prepared text, outline, PowerPoint slides, handouts, transcript, and video or sound recording) for each speech, lecture, panel discussion, symposium comments, or other oral presentation you have given since January 1, 2002, concerning the proper methodology for setting (1) rates for Presort First-class Mail and (2) postal rates generally. This request excludes oral testimony before the Postal Rate Commission.

Response:

See Response to ABA-NAPM/APWU-T1-6.

ABA-NAPMIAPWU-TI-8. On page 6, lines 11-14, of your testimony (APWU-T-1). you state that

there are equally clean pieces of ~~Single-Piece~~ mail ~~that~~. . . pay the full Single Piece rates because their mailers do not or can not presort or prebarcode their mail.

- (a) Please describe in detail the kinds of First-class mailers that you believe “do not or can not presort or prebarcode” Single-Piece First-class Mail that is otherwise “equally clean” (*id.* at 6, line 12) **as** Presort Mail.
- (b) Please provide your best estimate of the volume of “equally clean” First-class Mail that is entered at Single-Piece rates because the mailer does not or cannot presort or barcode.
- (c) Please produce all data on which you rely in response to part (b).
- (d) Please identify each major factor that makes the presortation or prebarcoding of “clean” Single-Piece First-class Mail impossible or undesirable for its senders.
- (e) Please produce all data on which you rely in response to part (d).
- (f) Please confirm that, if the USPS offered value added rebates (“VAR) on mail with indicia of Single-Piece First-Class postage, presort bureaus could convert Single-Piece Mail to Presort Mail before entry at a Postal Service facility. If you fail to confirm without qualification, please explain fully and produce **all** data, studies and analyses on which you rely

Response:

- (a) Mailers who do not produce large daily volumes of mail or consistent volumes of mail, and mailers whose schedules do not permit them to finalize their mail early in the day.
- (b) I do not think anyone keeps statistics of this kind.
- (c) N/A
- (d) My testimony does not say impossible or undesirable. The full quote states “there are equally clean pieces of Single-Piece mail that also provide a larger than average contribution to overhead. Those pieces pay the full

Single Piece rates because their mailers **do** not or can not presort or prebarcode their mail."

(e) **N/A**

(f) Confirmed.

ABA-NAPMIAPWU-TI-9. This is a follow-up to your answer to MMA/APWU-T1-3:

- (a) Please confirm that, all other things being equal, a mailpiece with a barcode clear zone is likely to **cost less to** process than a similar piece without a barcode clear zone. Please explain fully any failure to confirm.
- (b) Please confirm that Presort First-Class Mail **must** have a barcode clear zone. Please explain fully any failure to confirm.
- (c) Please confirm that Single-Piece First-class Mail need not have a barcode clear zone. Please explain fully any failure to confirm.
- (d) What percentage of Single-Piece First-class Mail has a barcode clear zone?

Response:

- (a) Confirmed.
- (b) Nonautomation presort letters must have a barcode clear zone in which to print a barcode. I believe that other automation letters may have a barcode printed in that zone, although there are other acceptable places in which to print it.
- (c) Single Piece letters are not required to have such a zone except **for** QBRM letters, **but** they often do.
- (d) I do not have those percentages.

ABA-NAPM/APWU-T1-10.

- (a) Does the **USPS** use computer hardware and software to read handwritten addresses on envelopes and apply a **POSTNET** barcode?
- (b) What percentage of handwritten addresses on envelopes can be ready ~~by~~ handwriting recognition software?
- (c) Is handwriting recognition software similar to that used by the **USPS** also available to the presort industry?

Response:

- (a) Yes.
- (b) I assume you are asking what percentage can be "read" by the software do not know what that percentage is.
- (c) I believe it is.

ABA-NAPMIAPWU-T1-11. Please assume that there are two postal products, product **A** and product **B**, and that product **A** costs per unit \$10 to supply while product **B** costs \$1 per unit to supply. There is thus a \$9 **cost** difference between Product **A** and Product **B**. Please assume further that ten cents of that cost difference is due to "avoided costs" and that the remaining **\$8.90** of that cost difference is therefore due to "other" cost drivers. Is it your position that the Postal Service should set the discount for product **B** only at **100%** of avoided costs, thus fully recognizing only the ten cents of cost difference due to avoided costs, and ignoring the remaining \$8.90?

Response:

Your question is very vague. Two postal products, such as a letter and a parcel, could cost very different amounts for the Postal Service to process due to factors such as shape and weight. This type of cost difference would have nothing to do with avoided costs. It is possible that a mailer could barcode the letter and the parcel and save some mail processing steps for the Postal Service. That type of savings could be calculated as a cost avoided differential but not by comparing one with the other. If you were comparing two very similar products and the costs avoided were calculated as \$0.10 then a 100% passthrough would result in a discount of \$0.10.

ABA-NAPM/APWU-T1-12. This question refers to the classification of cost **pools** in Appendix **Tables A-2 and A-3** of your testimony (APWU-T-1).

- (a) For each **cost** pool that you classify as "fixed—worksharing related" or "fixed—nonworksharing related", please cite all data, studies and analyses (other than the USPS testimony cited in your testimony) that **support** your classification.
- (b) Please produce all data, studies and analyses cited in response to **part (a) but** not already **on** file with the Commission.

Response:

(a-b) There are no studies or analyses that fit your request.

ABA-NAPM/APWU-T1-13.

- (a) Is the majority of growth in the volume of Presort First-class Mail due to the conversion of Single-Piece mail?
- (b) What percentage of the growth in the volume of Presort First-class Mail is due to the conversion of Single-Piece Mail?
- (c) Please provide all data, studies and analyses on which your responses to parts (a) and (b) rely.

Response:

- (a) Probably not.
- (b) I know of no data that provides this information.
- (c) N/A

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-1

On pages 3 of your testimony, you indicate that bulk metered mail has been used as the benchmark mail piece since R97-1. Is it your view that First-class presort volumes are still growing and exhibit similar volume shifts from First-class single piece to workshared in the same manner that such shifts occurred in R97-1. Please explain your answer.

Response:

Based on the RPW, First Class Presort volumes for letters, flats and parcels grew 3.7% in FY2005 and have grown about 3.5% through the third quarter of FY2006. That is a slower growth rate than was seen during the late 1990s. To my knowledge there are no data to indicate how much of that growth is coming from First Class Single Piece mail now nor how much of it came from First Class Single Piece mail then. In my view, not all of the recent decline in Single Piece mail is coming from a shift into the Presort categories but there probably is some Single Piece mail that is still shifting from one category to the other.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-2

On page 7 of your testimony you indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter."

- A. Please confirm that classification is an averaging process whereby mail with similar attributes are combined and assessed the same rate. If you cannot confirm, please explain.
- B. Please confirm that, whenever there is an averaging process, there will be some mail within that category that pays more towards institutional costs than other mail. If you cannot confirm, please explain.
- C. Please provide the TY AR unit contribution to overhead for an average single piece "clean letter at the USPS proposed rates, indicating all sources used and explaining how you derived it
- D. Please provide the TY AR unit contribution to overhead for an average Presort "clean letter at the USPS proposed rates, indicating all sources used and explaining how you derived it.
- E. By how much is the contribution from the single piece "clean" letter higher than the Presort "clean" letter?

Response:

Page 7 of my testimony does not indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter." It indicates this is a likely outcome of the Postal Service's proposed methodology.

- A. Mail receiving similar service from the Postal Service is averaged together.
- B. Confirmed

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

- C. I have not derived the unit contributions specified. However, if workshare discounts are calculated to equal costs avoided by the Postal Service the unit contribution of a 'clean" piece of mail would be the same whether or not it was workshared.**
- D. See C.**
- E. SeeC.**

Response of Kathryn ~~Kobe~~ to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-3

On page 7 of your testimony you indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece "clean" letter paying a larger contribution to overhead than the mailer of the Presort 'clean" ~~letter~~".

- A. Please define "cleanliness" as you use the term.
- B. Has "cleanliness" ever been a cost sparing attribute that has been recognized with a discount? If so, please explain.
- C. Please confirm that "dirty" and "clean" letters within First-class single piece have always paid the same rate. If you cannot confirm, please explain.
- D. Do you believe that a problem exists within First-class single piece because the Postal Service makes a higher profit on "clean" letters than on "dirty" letters? Please explain your answer.

Response:

Page 7 of my testimony does not indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter." It indicates this is a likely outcome of the Postal Service's proposed methodology.

- A. There is no precise definition of this term and my testimony was not meant to provide one except for the observation that BMM letters (machinable, type written addresses, uniform in size) tend to be at the cleaner end of the continuum. In general, clean mail has tended to be that mail which, for a variety of reasons, is ~~cheaper~~ than average to process.
- B. Not directly

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

C. Confirmed

- D.** I would not characterize ~~contributions~~ toward institutional costs as a "profit". Uniform rates and cost averaging do result in a system where there are letters with above average costs and those with below average ~~costs~~. The letters with below average costs are implicitly providing more toward the institutional costs than are the letters with above average ~~costs~~. The problem is not one of averaging the costs of Single Piece First Class letters it is averaging those costs only over the Single Piece First Class letters instead of over all the First Class letters.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-4

On page 7 of your testimony you indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter".

- A. Does a Single Piece "clean" letter bypass collection ~~costs~~? Please explain your answer.
- B. Does a Single Piece "clean" letter incur window service costs? Please explain your answer.
- C. Does a Single Piece "clean" letter incur mail preparation costs? Please explain your answer.
- D. On average, is a Single Piece "clean" letter rejected from automation equipment more often than, less often as or as often as a pre-approved automation-compatible prebarcoded letter? Please explain your answer.
- E. Does a Presort "clean" letter incur collection, window service or mail preparation costs? If so, please explain your answer.
- F. What other costs do Single Piece "clean" letters incur that Presort "clean" letters do not?
- G. How do you know that the discounts offered by the Postal Service to Presort "clean" letters are more than the additional costs incurred by single piece "clean" letters that incur collection, window service and mail preparation ~~costs~~?

Response:

Page 7 of my testimony does not indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter." It indicates this is a likely outcome of the Postal Service's proposed methodology.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

- A. Some do and some do not.
- B. Perhaps some clean letters would require window service, if a mailer requires a stamp for example.
- C. I do not understand your question. If you mean preparation costs by the mailer then it would incur preparation costs.
- D. I have no data to determine the answer to this.
- E. Presort letters might have window service costs if a mailer chooses to purchase precancelled stamps that way, might have some mail collection costs if there is a plant load agreement, and again I am unsure of what you mean by preparation costs.
- F. I have not ~~looked~~ at the difference between all "clean" First Class Single Piece letters and "clean" Presort letters. The calculations in my testimony focus on the difference in the mail processing costs of a subset of "clean" First Class Single Piece letters, BMM letters and Presort letters. Tables A-2 and A-3 itemize the workshare-related ~~costs~~ for metered mail letters (being used to proxy the costs of BMM letters) and presort letters and provides the basis for determining where the costs differ.
- G. Your question seems to encompass a wide array of clean letters, not necessarily just those that are nearly identical to the Presort letters, and an array of activities that are outside the scope of the discount calculations. As one example, the Commission has determined that window service costs should not be part of the costs avoided calculations. I did not try to compare the costs of the ~~out-of-scope~~ services to the discounts since they are not related to one another.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-5

On page 10 of your testimony, you propose higher First-class presorted rates than your **cost** savings indicate because "a 'one step' adjustment is likely to result in rate shock that probably would cause undue disruption to both mailers and the Postal Service." Please provide copies of any studies that were performed by or for you prior to filing your testimony in this proceeding that you relied on as the basis for concluding that First-class presorted rates based on the cost savings you calculated in Table 1 of the Column titled Total Workshare Related Unit Cost Savings on page 8 of your testimony will cause undue disruption to both mailers and the Postal Service.

Response:

I do NOT propose higher First-class presorted rates than my cost savings indicate on page 10 of my testimony. That is an incorrect reading of my testimony.

I did not rely on specific studies to come to the conclusion that the rates in Table 2 that were calculated using the costs avoided calculated from Table 1 would likely result in rate shock. To my knowledge rate shock has never been precisely defined.

It is my opinion that percentage increases of 16 to 18 percent in the rates for First Class Presort letters would be unlikely to be accepted by the Commission or the **BOG** given that the overall rate increase sought for this case was 8.5 percent.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-6

On page 10 of your testimony, you propose higher First-class presorted rates than your cost savings indicate because "a 'one step' adjustment is likely to result in rate shock ~~that~~ probably would cause undue disruption to both mailers and the Postal Service." Please provide copies of any studies that were performed by or for you prior to tiling your testimony in this proceeding that you relied on as the basis for concluding that the First-class presorted rates you propose will not cause undue disruption to both mailers and the Postal Service

Response:

I do NOT propose higher First-class presorted rates than my cost savings indicate on page 10 of my testimony. That is an incorrect reading of my testimony.

Any rate increase causes some adjustments. The proposed USPS rates would cause some adjustments and the rates proposed in my testimony would cause some adjustments. It ~~is~~ not always clear how large ~~those~~ adjustments will be. In choosing these rates, I noted that the Presort letter volume has grown 3.5% ~~YTD~~ in FY2006 even though a 5.4% rate increase took place at the beginning of the calendar year. I chose Presort letter rates that would show a weighted average increase of 8.8% (based on BY volumes) relatively close to the overall increase that the Postal Service is proposing for this case.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-7

On page 15 of your testimony, you claim "it seems highly unlikely that the mail that is converting to presort mail is equivalent to the average collection mail that is coming from individual households, nonprofit organizations, and small businesses."

- A. Please provide all studies or other information you relied upon in concluding that the mail that is converting from First Class single piece to presort is not equivalent to the average collection mail that is coming from individual households, nonprofit organizations, and small businesses.
- B. How much First Class single piece mail do you believe still "converts" to presort mail? Please support your answer.
- C. Is it your position that, in the absence of worksharing discounts, mailers will voluntarily bring their letters to a local post office, properly faced in trays that are labeled, sleeved and banded? If so, please support your answer.
- D. Is your use of BMM as the benchmark from which to measure workshared cost savings dependent upon the continued existence of significant volume shifts from Single Piece to Presort? Please explain your answer.

Response:

- A. I do not have studies on this topic. Households, many small businesses and many nonprofits do not have a large enough daily volume to qualify for presort discounts offered by the Postal Service. I am unaware of any presort bureaus that will collect household mail for presort, regular stamped letters for presort, nor small and highly variable volumes for presort.
- B. I know of no statistics kept on this topic.
- C. My testimony does not present a position on the absence of workshare discounts because I am not proposing a rate structure without workshare discounts. I would note that many mailers did provide their mail presorted prior to the offering of presort discounts because they believed it got their

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

mail delivered faster. In the absence of presort discounts, I would assume that mailers would make decisions about how to enter their mail based on several business factors including speed of delivery and speed of getting return payments.

- D. No. The test is whether a piece of mail will provide the same contribution to overhead whether or not it is workshared. That is not dependent on which mail might or might not transfer from Single Piece in the immediate future. It requires the use of a benchmark piece that is a proxy for workshared mail but does not have worksharing activities associated with it.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-8

On pages 19 and 20 you discuss your method to de-average Automation and NonAutomation costs in the same manner as USPE witness Abdirahman.

- A. Please confirm your de-averaged mail processing unit costs and those derived by the Postal Service model, as shown in the following table. If you cannot confirm, please provide corrections, along with your derivations.

First-class Presort Category	CRA (Cents)	USPS Model (Cents)	APWU Model (Cents)
Nonautomation	21.372	6.302	6.173
Automation	3.904	4.522	4.527
Combined	4.587	4.507	4.587

Sources: USPS-LR-151, USPS-LR-L-48, APWU-I.R-1, p. 3

- B. Please confirm your adjusted model-derived worksharing-related mail processing costs and those derived by the Postal Service for Nonautomation Mixed **AADC** (NAMMA) letters and BMM letters, as shown in the following table. If you cannot confirm, please provide corrections.

First-Class Letter Category	Adj Model-Derived Unit Cost (Cents)	
	USPS	APWU
NAMMA	5.797	5.715
BMM	9.559	9.559

Sources: USPS-LR-L-48 APWU-LR-1
Tr. 14/4222-28

- C. Please confirm that, as shown by the Postal Service's analysis and your analysis, respectively, the unit processing costs for BMM are 65% and 67% higher than the unit processing costs for NAMMA letters. If you cannot confirm, please provide the correct percentages and explain how they are derived.
- D. Please confirm your adjusted model-derived worksharing-related mail processing costs and those derived by the Postal Service for Nonautomation

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

letters and BMM letters, as shown in the following table. If you cannot confirm, please provide corrections and explain how they are calculated.

First-class Letter Category	Adj Model-Derived Unit Cost (Cents)	
	USPS	APWU
NonAuto	6.302	6.173
BMM	9.559	9.559
<i>sources</i>	USPS-LR-L-48 Tr. 14/4228	APWU-LR-1

- E. Please confirm that, as shown by the Postal Service's analysis and your analysis, respectively, the unit processing **costs** for BMM are 52% higher and 55% higher than the unit processing costs for Nonautomation letters, If you cannot confirm, please provide the correct percentages and indicate how they are derived.

Response:

- A. The table provided with the question includes separate CRA costs for nonautomated presort and presort mail. In R2005-1 and in R2006-1, the Postal Service noted that the methods used to allocate CRA costs separately to nonautomated and automated presort mail were not reliable. I used the combined Presort CRA as the starting point of my calculations as did Mr. Abdirahman in LR-L-48. While the Postal Service may have provided the separate **CRA** costs for nonautomated presort and automated presort in LR-L-151 in response to an interrogatory I do not believe there was any change in the Postal Service's characterization of those costs as being unreliable. Consequently, I have redone the table to only include the

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

CRA costs for the combined Presort letters.

First-class Presort category	CRA (Cents)	USPS Model (Cents)	APWU Model (Cents)
Nonautomation		6.302	6.173
Automation		4.523	4.527
Combined	4.587	4.587	4.587

- B. The Postal Service did not provide an estimate of BMM letter costs in LR-L-48 and the other costs appear to be an estimate of total mail processing costs.
- C. As stated in B, I can not confirm the Postal Service's numbers in your table. The proxy for the workshare-related mail processing costs for BMM letters is 67 percent higher than the estimate for the workshare-related mail processing costs for Machinable Nonautomation Presort Mixed AADC letters presented in APWU-LR-1. (While not stated precisely in your question, I am assuming you are using NAMMA to be only the machinable portion of the mixed AADC Nonautomated Presort group) We do not know precisely what the actual worksharing-related costs of BMM letters are since we base it on the CRA for all metered letters and make adjustments to the CRA costs to come closer to an approximation for BMM letters. Consequently, the calculated differential is only an approximation of the mail processing costs avoided by the Postal Service.
- D. The Postal Service did not provide an estimate of BMM letter costs in LR-L-48; the other costs appear to be an estimate of total mail processing costs.
- E. I can not confirm the Postal Service's numbers in your table. The proxy for the workshare-related mail processing costs for BMM letters is about 55 percent higher than the estimate for the mail processing costs for Nonautomated Presort letters presented in APWU-LR-1. We do not know precisely what the actual worksharing-related costs of BMM letters are since

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

we base it on the CRA for all metered letters and make adjustments to the CRA costs to proxy the costs of BMM letters.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMNAPWU-TI-9

On Page 20 of your testimony you indicate that you use Nonautomation letter delivery ~~costs~~ as a proxy for BMM delivery ~~costs~~ since NAMMA delivery costs are not available.

- A. Please confirm that you would have used NAMMA delivery costs as a proxy for BMM letters because NAMMA letters exhibit similar cost attributes to BMM letters. If you cannot confirm, please explain precisely why you would have used NAMMA letter delivery costs as a proxy for BMM delivery costs.
- B. Please confirm that you used Nonautomation delivery costs as a proxy for the delivery costs of BMM letters because Nonautomation letters exhibit similar cost attributes to BMM letters. If you cannot confirm, please explain precisely why you used Nonautomation letter delivery ~~costs~~ as a proxy for BMM delivery costs.
- C. Please confirm that NAMMA letters and Nonautomation letters are both workshared categories, subject to all of the Postal Service's prerequisite requirements for qualifying for discounted First Class rates, while BMM letters are subject to none of those prerequisite requirements. If you cannot confirm, please explain
- D. Please confirm that, in order to isolate delivery cost savings due to worksharing, it is reasonable to compare the delivery costs for one rate category that is workshared to another rate category that is not workshared, all other factors being equal to the extent possible. If you disagree, please explain.

Response:

- A. Since the data were not available, I do not know what decision I might have made. BMM letters are machinable by definition; therefore, I would have considered if machinable letters were a better proxy than were nonmachinable letters or a mixture of machinable and nonmachinable

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

letters. However, the nonautomation presort letter unit delivery costs are what the Commission has used in the past and that also would have been a factor in any decision I might have made.

- B. I used the Nonautomation Presort letter unit delivery ~~costs~~ because they have been the ones used to proxy BMM unit delivery costs in the cost avoided calculation since **R97-1** and they were the unit delivery costs used as the proxy for BMM by the Commission in its **R2000-1** calculations. In this proceeding nonautomated presort letters appear to be a mostly machinable category of letters, I am not certain what other cost attributes you are making reference to.
- C. I can confirm that NAMMA letters are part of the Nonautomation Presort letter category and subject to the Postal Service's prerequisite requirements for qualifying for discounted First Class rates. There are other nonautomation letters that are not part of a presort category but I assume you were referring to Nonautomation Presort letters in your question. BMM letters are machinable by definition whereas I do not believe that is a requirement for the Nonautomation Presort category although the NAMMA sub-part of that group would be machinable by definition as well.
- D. Partially confirmed. The test is whether a mail piece makes the same unit contribution whether or not it is workshared. Consequently, the unit delivery costs could not be those associated with just any set of non-workshared letter mail. It would need to be compared to mail that is most similar to the workshared letter pool. This is precisely the reason the nonautomated presort unit delivery ~~costs~~ have been used in the past as the proxy for BMM. For example, the comparison would need to be made to typed letter mail that is machinable, and that does not have a widely differing geographic spread from that of presort mail.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMAIAPWU-TI-10

Please provide the implicit cost coverages for First-class (1) single piece letters and (2) presorted letters under your proposed rates, and show how you derived them.

Response:

I have not done a complete recalculation of costs using the rollforward model and the complete set of new volume estimates. Consequently, I have not calculated the implicit cost coverages. I expect the implicit cost coverage for Presort mail to be somewhat higher under this proposal than under the Postal Service's proposal and for the Single Piece cost coverage to be somewhat lower.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMAIAPWU-TI-11

For each of the last 10 fiscal years for which data are available, please provide the volumes of **BMM** that (1) have converted from First Class single piece to Presort and (2) have not converted from First Class single piece to Presort. Please provide sources for the data you provide in response to this interrogatory. Please explain why **BMM** pieces have not converted from First Class single piece?

Response:

To my knowledge the Postal Service does not provide volumes of BMM letters nor am I aware of any source of data that provides the conversion information that you seek.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-12

For TY 2008, please provide (1) the volume of BMM that is expected to convert to First-class Presort and (2) the volume of BMM that is expected not to convert to First-class Presort. For the volume of BMM that is not expected to convert to First-Class Presort, please explain why it will remain BMM.

Response:

I am unaware of any source for the conversion data that you seek.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-14

Please refer to Table 2 on page 9 of your testimony.

- A. Please confirm the APWU 100% passthrough and proposed rates (in cents) as shown in the following table. If you cannot confirm, please provide any necessary corrections.

First-class Letter Category	APWU 100% Pass thru Rates	APWU Proposed Rates
Single Piece	42.0	41.0
Nonautomation	38.1	37.1
Mixed AADC	37.8	35.1
AADC	36.6	34.0
3 Digit	36.2	33.6
5 Digit	34.7	32.1

- B. Please confirm the APWU 100% passthrough proposed discounts, as compared to the current and USPS proposed discounts (in cents) as shown in the following table. If you cannot confirm, please provide any necessary corrections.

First-class Letter Category	Current Discounts	USPS Proposed Discounts	APWU 100% Pass thru Discounts	APWU Proposed Discounts
Single Piece				
Nonautomation	1.9	2.0	3.9	3.9
Mixed AADC	6.4	7.4	4.2	5.9
AADC	7.3	8.5	5.4	7.0
3 Digit	8.2	8.9	5.8	7.4
5 Digit	9.7	10.8	7.3	8.9

- C. Please confirm that you have not proposed the APWU 100% pass through rates because they are “likely to result in rate shock that probably would cause undue disruption to both mailers and the Postal Service.” (Page 10). If you cannot confirm, please explain.

Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

- D. Please explain whether the following set of proposed rates by the OCA (in cents) are "likely to result in rate shock that prooably would cause undue disruption to both mailers and the Postal Service." Please explain your answer.

First-class Letter Category	APWU 100% Pass thru Rates	OCA Proposed Rates
Single Piece	42.0	42.0
Nonautomation	30.1	40.0
Mixed AADC	37.0	36.2
AADC	36.6	35.0
3 Digit	36.2	34.5
5 Digit	34.7	33.1

Response:

- A. Confirmed
- B. Confirmed
- C. confirmed
- D. I have not made a careful study of all the aspects of the OCA's proposed rates. They are different from the rates that I indicated might cause rate shock and they are different from the rates I proposed. Since the term rate shock has never been precisely defined, I can not explain whether the OCA's proposed rates fits into that category or not.

MMA/APWU-TI-15

In your response to MMA/APWU-T1-1 you state, "...there probably is some Single Piece mail that is still shifting from one category to the other." Is BMM, which is mailed at a post office (but not at a window), the most likely type of single piece mail that still shifts to First-class Presorted mail? Please explain and provide any studies or other information you believe support your answer.

Response:

BMM letters certainly remain a highly desirable type of mail for a presort bureau to convert to workshared mail. However, I am unaware of any studies that provide details on which pieces shift from Single Piece mail to Presort mail.

MMA/APWU-T1-16

In your response to **MMA/APWU-T1-2(C)-(D)**, you state, "[I]f workshare discounts are calculated to equal costs avoided by the Postal Service the unit contribution of a 'clean' piece of mail would be the same whether or not it was workshared."

- A. In your opinion, are the unit cost savings that you derived in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony equal to "the costs avoided by the Postal Service" such that "the unit contribution of a 'clean' piece of mail would be the same whether or not it was workshared." Please support your answer.
- B. In your opinion, if an automation 5-digit letter reverts back to single piece, will the total unit attributable cost (including collection, mail preparation (culling, facing and canceling), mail processing, transportation and delivery) be approximately 7.3 cents less? Please support your answer and show how you derive any figure other than 7.3 cents.
- C. If your answer to Part (B) is yes, please confirm that all other costs that make up the difference between the cost of processing and delivering a First-class Single Piece letter and an Automation 5-digit letter (i.e., all attributable costs that are not part of your derivation of workshared cost savings) would not change. Please support your answer. If your answer to part (B) is no, please explain how these other costs change and support your answer.
- D. Please confirm that transportation costs are not affected by worksharing. Please explain and support your answer with any studies or other information you believe supports your position.

Response:

- A. It is the best estimate we have of the savings between the benchmark piece and the presort pieces.
- B. A single 5-digit letter converting to Single Piece would retain its general characteristics of being metered and machinable, it might be dropped in a

collection box and be collected as part of an established collection run.

However, it is unlikely that just a single piece would revert back. On average, 5-digit presort letters probably would revert back to bulk metered mail letters and the estimated costs avoided between 5-digit automated letters and BMM letters are 7.3 cents.

- C. I do not understand your question. However, to the extent that it asks for a comparison of the costs between the average First Class Single Piece letter and the 5-digit automated letter, my testimony has already covered why this includes many costs that are not worksharing related, see pages 6 and 7 of my testimony.
- D. While I have not seen specific studies on this topic, the Commission did state in its MC95-1 Decision at 4293 on page IV-132, "the Commission excludes differences in the transportation and 'other' cost functions from its calculation of cost differentials for the automation presort workshare categories. As explained above, the record does not provide a basis for concluding that presorting or prebarcoding cause these costs to vary."

MMAIAPWU-TI-17

Please refer to APWU-LR-1, pages 2 and 4, where you derive the CRA unit costs for BMM and Presorted letters. respectively.

A. Please confirm that none of the cost pools listed below are impacted by worksharing and explain the complete basis for your answer:

1. FSM100
2. FSMI
3. MECPARC
4. SPBS OTH
5. SPBSPRIO
6. 1SACK_M
7. MANF
8. ICANCEL
9. 1DISPATCH
10. 1FLATPRP
11. 1OPTRANS
12. 1SACK_H
13. 1SCAN
14. BUSREPLY
15. EXPRESS
16. MAILGRAM
17. REGISTRY
18. REWRAP
19. 1EEQMT
20. INTL
21. PMPC

B. Please confirm that, if any of the cost pools listed in **Part (A)** are, in fact, impacted by worksharing, then your derived unit cost savings shown in Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.

Response:

- A. Confirmed that none of these cost pools are workshare related with respect to a comparison of the bulk metered mail letter benchmark to the presort letters. I believe the PMPC cost pool has been discontinued since that work has been brought back in-house. The FSM cost pool has been replaced by the FSM1000 cost pool. The cost pools FSM1000, MANP and PRIORITY are also excluded from the workshare-related calculations although they do not appear on your list. FSM100, FSM1000, 1FLATPREP, MANF are all flats-related cost pools and while occasionally mail that is letter size is processed on flat sorting equipment it is not standard size letter mail such as the BMM letter benchmark. MECPARC, SPBSOTH, SPBSPRIO, REWRAP and MANP are all parcel and bundle related cost pools. The BMM letter benchmark is not bundled but is entered in trays. 1SACKS_M and 1SACKS_H are not related to the BMM benchmark letter because they are sack charges and neither BMM nor Presort letters are delivered in sacks. PRIORITY, EXPRESS, BUSREPLY, REGISTRY, MAILGRAM and INTL all apply to special types of letter processing and do not apply to the BMM letter benchmark. The exclusion of 1CANCEL has been covered in my testimony (see page 19). 1EEQMT is a cost pool related to empty equipment and is not impacted by worksharing. Cost pool 1DISPATCH is preparing mail for dispatch and is not related to piece distribution, cost pool 1OPTRANS is for transporting containers of mail between work areas and is not related to piece distribution, and 1SCAN includes the activities related to air shipment of First Class mail and is not related to piece distribution.
- B. Not confirmed. It would depend on which cost pool was included whether it would increase or decrease the differential between the benchmark piece and the presort pieces.

MMA/APWU-T1-18

In your response to **MMA/APWU-T1-4** (G), you indicate that your cost savings analysis did not include any possible savings that could result from reduced window ~~service~~ costs because "the Commission has determined that window service costs should not be part of the costs avoided calculations."

- A. Is this a correct summary of your position? If not, please explain.
- O. Do you believe that, if a significant volume of Presorted letters reverted back to Single Piece, that there would be no change in window service costs? Please explain your answer.
- C. Please confirm that, to the extent that window service costs would increase if a significant volume of Presorted letters reverted back to Single Piece, your derived unit cost savings shown in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.
- D. Please confirm that, to the extent that collection costs would increase if a significant volume Presorted letters reverted back to Single Piece, that your derived unit cost savings shown in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.
- E. Please confirm that, to the extent that mail preparation costs (culling, facing and canceling) would increase if a significant volume Presorted letters reverted back to Single Piece, your derived unit cost savings shown in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.
- F. Please confirm that, to the extent that transportation ~~costs~~ would increase if a significant volume of Presorted letters reverted back to Single Piece, your derived unit cost savings shown in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.

Response:

- A. The benchmark piece, **BMM** letters, does not incur window service costs therefore those costs were never part of that cost analysis.
- B. In its **R2000-1** Decision at 5094 on page 242, the Commission made the following *two* statements: "the Commission continues to hold the position that window service costs are not a basis for setting worksharing discounts" and "[t]he Commission considers this a similar scenario, with mailers avoiding window costs and typically using permit indicia in place of stamps for other reasons than avoiding Postal Service costs." I agree with that analysis.
- C. Not confirmed. I do not think window service costs would be impacted by such Presort mail reverting to Single Piece mail. However, it is not clear that even if there was some increase that the Commission would decide that window service costs should be part of the costs avoided calculations.
- D. It is not clear collection costs would increase significantly if a significant amount of mail were reverted to Single Piece. Many mailers would drop their mail at the postal facility, as mailers do now, if they determined it would increase the speed of that mail's delivery or otherwise benefited their business activities. If the mail was dropped in a postal box, then the volume of mail might have increased, but the collection run is already being done; the increased volume would simply reduce the unit cost of collection.
- E. Not confirmed. It is unlikely that these letters would revert to stamped letters thus, cancellation costs are not likely to increase. The meter prep cost pool is currently included in the calculations of costs avoided and reflects the costs of all metered mail letters since it is not possible to determine what the costs would be for just **BMM** letters.
- F. First Class letter mail is to be sent at a uniform rate throughout the country. This means transportation ~~costs~~ have been averaged over all the pieces whether they are bound for Alaska or across the street. Consequently, even if

there were transportation cost increases (which is not a given based on the Commission's statements in MC95-1, see response to MMA/APWU-T1-16D) they have not been part of the workshare cost calculations and I would not add them.

MMAIAPWU-TI-19

Is mail piece design a function of worksharing? Please explain your answer and indicate the extent to which mailers endeavor to meet the Postal Service's extraordinarily ~~complex~~ mail piece design requirements and how such efforts save postal ~~costs~~, if at all. Please include a discussion of (1) the Postal Service's Mailpiece Quality Control Program and the importance of having the employees of mailers and the Postal Service pass rigorous testing procedures to qualify as Mailpiece Quality Control Specialists, and (2) the Postal Service's no tolerance policy for workshared mailers such that, if one of its many precise rules applicable to the design of workshare letters is violated by even the smallest amount, an entire mailing will be either held up or simply rejected.

Response:

No. Most businesses endeavor to have their mail piece readable and processable and there are many standard envelope types that meet that goal. Some mailers choose to make their piece of mail "stand out from the crowd" and use special graphics or eye-catching logos on their envelopes in order to increase the likelihood of its being opened and read. That is a business decision by the mailer. It is to the mailers advantage to know prior to going to the expense of printing and mailing hundreds or thousands of such pieces that they are going to be automation compatible. That is why the Postal Service makes Mailpiece Design Analysts available to test mail samples for acceptable paper, background color, and flexibility and to review artwork prior to printing.

I am not an expert on the Mailpiece Quality Control Program or its testing procedures other than it is a self-study course with a self-administered final exam and that it covers such things as the classes of mail, addressing, barcodes, postage payment methods, reply and return mail, endorsements and hazardous materials.

MMA/APWU-T1-20

Please refer to APWU LR-1, page 1, where you summarize the unit worksharing related unit costs for Nonautomation, machinable MAADC letters (NAMMA) and BMM letters.

- A. Please confirm your mail processing cost results as shown in the following table. If you cannot confirm, please provide the correct figures and show how they are derived.

First-class Letter Category	Total Workshare Related Mail Processing Unit Cost (Cents)
BMM	9.559
NAMMA	5.715
Difference	3.844

- B. Please confirm that, when modeling BMM and NAMMA costs, the Postal Service assumes that BMM and NAMMA letters both enter the mailstream at the Outgoing ISS operation, which produces nearly identical results if the same attributable cost methodology is used. See for example, USPS-LR-L-48, p. 15 (which you rely on) and USPS-LR-L-41, pages 4 and 22. If you cannot confirm, please explain.
- C. Assuming you confirm the unit costs shown in the table in Part A, please explain precisely why it is reasonable that BMM should cost 3.844 cents more to process than NAMMA. If you do not confirm the unit costs in the table, please indicate the correct unit cost difference, show how it is derived and explain why that difference is reasonable.

Response:

- A. BMM costs are 9.584 (see revised testimony of October 12, 2006)
- B. I did not use a model of BMM in the calculation of my numbers nor does the Postal Service include such a model in USPS-LR-L-48. The Postal Service's

mail flow model for Nonautomated machinable mixed AADC letters in USPS-
LR-L-48 shows entry at the outgoing ISS

- C. The BMM letters cost is determined from the CRA costs for a much more
aggregated pool of letters and probably *reflects* more costs than would be
attributable to just BMM letters.

MMA/APWU-T1-21

Please refer to APWU LR-1, page 1, where you summarize the unit worksharing related unit costs for Nonautomation letters and Automation MAADC (Auto MAADC) letters.

- A. Please confirm your mail processing cost results as shown in the following table. If you cannot confirm, please provide the correct figures and show how they are derived.

First-class Letter Category	Total Workshare- Related Mail Processing Unit Cost (Cents)
Auto MAADC	5.715
Nonautomation	5.664
Difference	.051

- B. Please confirm that, when modeling Auto MAADC and Nonautomation costs, the Postal Service assumes that Auto MAADC letters enter the mailstream at the Incoming MMP Auto operation, whereas Nonautomation letters enter the mailstream in either the Outgoing or Incoming ISS operation, if machinable, or a very expensive manual operation if nonmachinable. See for example, USPS-LR-L48, pages 5, 15, 17, 19, 21, 23 and 25. If you cannot confirm, please explain.
- C. Assuming you confirm the unit costs shown in the table in Part A, please explain precisely why it is reasonable that Automation MAADC letters should cost .051 cents more to process than Nonautomation letters, or that they should be nearly identical. If you do not confirm the unit costs in the table, please indicate the difference and explain why that difference is reasonable.

Response:

- A. Not confirmed. The Auto MAADC letter cost is 5.820 (See APWU-LR-1, p. 1, revised October 12, 2006).

- B. I am not aware of an Auto MMADC model and therefore assume you were referring to Auto MAADC. As I understand the models, they show that the Auto Mixed AADC presort mail enters at the outgoing secondary auto step and then may flow to the incoming MMP auto as one of its next steps. The machinable nonauto mixed AADC enters at the outgoing ISS operation or, if not machinable, an outgoing secondary manual operation.
- C. The models indicate that a higher percentage of the auto MAADC letters are being manually processed than are the nonauto mixed AADC letters and that a smaller percentage of them end up in DPS.

MMA/APWU-T1-22

Please refer to your response to Interrogatory MA/APWU-T1-10 and OCA witness Pamela A. Thompson's September 22, 2006 response to Interrogatory MMA/OCA-T4-1. You and Ms. Thompson were both asked to "provide the implicit cost coverages for First-class (1) single piece letters and (2) presorted letters under your proposed rates, and show how you derived them." Ms. Thompson was able to provide the requested implicit cost coverages that would result from adoption of her proposed rates but you did not do so because, as you note, you have not completed a recalculation of the rollforward model that takes into account your proposed rates and mailers responses to those rates.

- A. In the development of your proposed First-class rates, what consideration, if any, did you give to the implicit cost coverages for First-class Single Piece and Presorted mail? Please explain your answer.
- B. Is it possible for you to derive implicit cost coverages for (1) First-class Single Piece, (2) First-class Presorted and (3) All First Class, by using the before rates volumes and costs? If yes, please provide each of the cost coverages that will result from implementation of your proposed rates. If no, please explain why you cannot derive the requested implicit cost coverages.

Response:

- A. I considered that the Presort cost coverage would probably rise and the Single Piece cost coverage would probably be reduced under this proposal. I did not calculate the exact numbers.
- B. It is possible to determine the revenue after rates but the cost estimates can only be approximated using the TYAR volumes and the TYBR unit costs. While the Postal Service does provide TYBR unit costs in OCA/USPS-26, it does not specify whether those ~~costs~~ are based on USPS or PRC cost methodologies, although I assume that it is the USPS cost methodology.

Other Letters	34,104,264	13,982,749				
QBRM	322,989	127,581				

Flat add ozs	8,696,520	1,739,304				
Flat Shape	3,127,929	3,647,341	1.166	0.691	169%	0.475
Parcels	272,784	259,144				
Parcel add						
Parcel Shape	272,784	500,161	1.834	1.682	109%	0.152

Nonauto Presort	1,131,839	419,912				
Nonautoadd ozs.	70,473	14,095				
Auto Mixed AADC	2,840,361	996,967				
Auto AADC	2,470,006	839,802				
Auto 3-digit	22,437,620	7,539,040				
Auto 5-digit	17,744,756	5,696,067				

**RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS KATHRYN
KOBE TO INTERROGATORIES OF MMA**

7112

	Volume (TYAR) (000)	Revenue (\$000)	Implicit Avg Rate	Cost/ Piece	Implicit Coverage	Per Unit Contribution
Auto add ozs.	1,564,056	242,429				
Presort Letters	46,624,582	15,748,311	0.338	0.101	334%	0.237
Nonauto flats	114,771	59,566				
Nonauto flat add ozs	214,671	42,934				
Mixed ADC Flats	45,938	21,591				
ADC Flats	109,847	48,113				
3-Digit Flats	270,291	115,685				
5-Digit Flats	343,298	138,349				
Additional ozs	1,098,562	219,712				
Presort Flats	884,145	645,950	0.731	0.471	155%	0.260
ADC Parcels 3-Digit	23,650	17,194				
Parcels	59,580	42,719				
5-Digit Parcels	75,673	48,658				
Add ozs	685,831	137,166				
Business Parcels	158,903	245,736	1.546	6.717	23%	-5.17
All Presort	47,667,630	16,639,998	0.349	0.130	269%	0.219
Presort X Parcels	47,508,727	16,394,261	0.345	0.108	320%	0.237
Total First Class Letters	81,051,836					
Total First Class	85,495,596	35,286,697	0.413	0.192	214%	0.220
Total First and Flats	85,063,909	34,540,799	0.406	0.176	231%	0.231
\PWU-LR-2 FirstClassRevRequest.xls (revenue adjustment — and unit cost numbers by shape are from OCA/USPS-26, unit cost numbers for aggregates, such as all Single Piece, are calculated using TYAR volume weights.						

MMNAPWU-TI-23

In your response to MMA/APWU-T1-9 (B), you did not confirm that you used Nonautomation delivery ~~costs~~ as a proxy for BMM delivery ~~costs~~ because Nonautomation letters exhibit similar cost attributes to BMM letters. Instead you state that you used Nonautomation delivery costs as a proxy for BMM delivery ~~costs~~ "because they have been the ones used to proxy BMM unit delivery costs in the cost avoided calculation since R97-1 and they were the unit delivery costs used as the proxy for BMM by the Commission in its R2000-1 calculations."

- A. Is the preamble to this question a fair statement of your position? If not, please explain.
- B. Please confirm that the Postal Service proposed to use Nonautomation delivery costs as a proxy for BMM delivery costs in both R97-1 and R2000-1. If you cannot confirm, please explain.
- C. Do you agree with the Commission's decision to adopt the Postal Service's recommendation to use Nonautomation delivery costs as a proxy for BMM delivery costs in those cases? Please explain your answer.
- D. Is it your position that Nonautomation letters do not exhibit mail processing cost attributes that are similar to those exhibited by BMM letters? Please explain your answer.

Response:

- A. Yes
- B. That is my understanding.
- C. The Commission had valid reasons for accepting the nonauto presort letter as the proxy but I am not sure it was a close proxy in characteristics. BMM letters are by definition machinable. Nonautomation presort letters are not always machinable. Since nonmachinable mail can not be delivery point sequenced by machine and must be cased by the carrier, that is one important aspect of

determining the unit delivery costs of mail. Consequently, I am not sure it is a good proxy for machinable BMM letters.

- D. To the extent that nonautomation letters are nonmachinable or rejects from automation, I do not think they are necessarily a good proxy for BMM letters. Since the goal is to determine if workshare mail, which is mostly machinable, is contributing the same amount to overhead costs as it would if it was not workshared, it seems that using a unit delivery cost that could have a significant percentage of nonmachinable pieces might not provide the best estimate.

MMA/APWU-T1-24

Please refer to APWU-LR-1 where you derive First-class workshared unit cost savings.

- A. Please confirm that your analyses relied on the Postal Service's attributable cost methodology. If you cannot confirm, please explain.
- B. Please confirm that, in every rate case since R97-1, the Commission has used its own attributable cost methodology that is different than the Postal Service's attributable cost methodology. If you cannot confirm, please explain. If you do confirm, please explain your understanding of all differences between the Commission's attributable cost methodology and the Postal Service's attributable cost methodology.

Response:

- A. Confirmed.
- B. Confirmed. Primarily the Commission asserts there is 100% volume variability in mail processing activities and the Postal Service estimates that there is not 100% volume variability in many mail processing activities.

MMA/APWU-T1-25

Please provide a list of all changes that you made to the Commission's R2000-1 workshared cost savings analysis.

Response:

The main differences between my calculations and those of the Postal Rate Commission's calculations in R2000-1 consist of the following: 1) I used the USPS costs rather than the PRC-version costs; 2) the PRC allocated a third of the cost pool CANCMMP to workshare-related fixed but because that cost pool has now been split into two, I allocated the 1METERPRP cost pool to workshare-related fixed and the ICANCEL cost pool to nonworkshare related; 3) the PRC allocated the LD41, LD42, LD43, LD44 and LD48 cost pools to workshare-related fixed, witness Van-Ty-Smith now combines those cost pools with the STA/BRA NONMODS cost pools and I allocated the combined totals rather than the individual ones; 4) there are some new cost pools that did not exist in WOOD-1 and with the exception of TRAYSORT which I allocated to workshare-related fixed, the new cost pools were allocated to nonworkshare related; 5) I used a combined presort letter CRA rather than using separate ones for nonautomated and automated presort.

MMA/APWU-T1-26

Please refer to APWU-LR-1, p. 2, where you derived CRA BMM unit costs.

- A. Please explain why you classified ~~the cost~~ pool 1 CANCEL as "nonworksharing-related fixed" when the Postal Service classified ~~such costs~~ as "worksharing-related fixed" in USPS-LR-L-141 and USPS-LR-K-48?
- B. Please explain why you classified the cost pool 1 TRAYSRT as "worksharing-related fixed" when the Postal Service classified such costs as "nonworksharing-related fixed" in USPS-LR-L-141 and USPS-LR-K-48?

Response:

- A. Please see my testimony at page 19.
- B. Please see my testimony at page 18.

MMAIAPWU-TI-27

Please refer to APWU-LR-1, p. 4, where you derived CRA Presorted unit *costs*.

- A. Please confirm that as shown on that page, you have classified cost pools IOPBULK, IOPPREF and IPOUCHING as "worksharing-related fixed". If you cannot confirm, please explain.
- B. Please confirm that, in this proceeding, USPS witness Abdirahman classified cost pools IOPBULK, IOPPREF and IPOUCHING as "proportional", as shown on p. 3 of Library Reference USPS-LR-L-48. If you cannot confirm, please explain.
- C. Please confirm that, as defined by USPS witness Abdirahman, all proportional costs are workshare-related, vary with the degree of presort, and are reflected by operations included in the mail flow models. If you cannot confirm, please explain.
- D. Please confirm that USPS witness Abdirahman testified that he classified cost pools IOPBULK, IOPPREF and IPOUCHING as proportional because, in the last case, such costs were classified as proportional for Nonautomation costs and fixed for automation letters. Therefore, when he combined Nonautomation and automation CRA costs as "Presorted", just as you have done, he classified those cost pools as proportional. See Tr. 4/572, 574 and 576.
- E. Please explain why you did not follow USPS witness Abdirahman's cost pool classifications for cost pools IOPBULK, IOPPREF and IPOUCHING.

Response:

- A. Confirmed.
- B. Confirmed.
- C. Mr. Abdirahman does use that as a general description in describing the two types of cost pool groupings he uses in R2006-1. However, his treatment of these particular cost pools was not consistent between R2005-1 and R2006-1 for automated presort mail. In looking at the mail flow models for automated

presort letters in **USPS-LR-K-48** and **USPS-LR-L-48**, I did not find any additional changes to the mail flow models to account for Mr. Abdirahman's reallocation of those ~~cost~~ pools from fixed to proportional for automated presort mail.

D. Confirmed.

E. These cost pools were classified as worksharing fixed ~~for~~ the automation presort letters and the BMM letter benchmark in the **PRCs** calculations in **R2000-1** (see **PRC-LR-12** Part B) and Mr. Abdirahman classified these cost pools as worksharing-related fixed for the BMM letter benchmark and for the auto presort letters in R2005-1. It was only for nonautomation presort letters that these cost pools were classified as workshare proportional. Since I could not find any changes in Mr. Abdirahman's mail flow models for automated presort mail that showed how ~~the~~ extra activities had been newly modeled and since the automation presort letters are 96.4% of base year volumes and over **80%** of test year costs for presort letter mail (based on Mr. Smith's calculations), I allocated these cost pools the same way they have been allocated ~~for~~ the auto presort letters in the past, to worksharing-related fixed, for comparison to the BMM letter benchmark.

MMA/APWU-T1-28

Please refer to APWU-LR-1, pages 1 and 3.

- A.** Please confirm that one could replicate your worksharing ~~cost~~ analysis with the Commission's attributable costs by making ~~the~~ following substitutions:
1. Substitute "11.410" for "9.559" as ~~the~~ worksharing-related unit cost for BMM on page 1 of APWU-LR-1. The BMM unit cost figure of "11.410" is from USPS-LR-141, p. 1.
 2. Substitute the Presorted CRA unit cost pool amounts from USPS-LRL-110, p. 3 for the unit cost pool amounts shown on page 4 of APWU-LR-1.
 3. Classify the substituted Presorted CRA unit cost pool amounts described in Subpart 2 above, in the same manner as those cost pools are classified for Nonautomation letters in USPS-LR-L-141, p. 20.
 4. Substitute the model-derived unit costs from USPS-LR-L-110, p. 2 for each Presorted rate category as shown in Table 2 of APWU-LR-1, page 3.

If you cannot confirm, please explain how you would replicate your worksharing analysis with the Commission's attributable costs rather than the Postal Service's attributable costs.

- B.** Please confirm that, if you had utilized the Commission's attributable costs in APWU-LR-1 and classified the cost pools as the Postal Service has (as shown in USPS-LR-L-141, p. 20), then you would obtain the results shown in the following table compared to your results? If you cannot confirm, please make the necessary corrections and show how they were derived.

category	(Cents)	(Cents)	(2) - (1)
BMM Letters (Benchmark)			
Nonautomation	3.895	4.939	1.044
Auto MAADC	4.175	5.384	1.209
Auto AADC	5.384	6.851	1.467
Auto 3-Digit	5.813	7.370	1.557
Auto 5-Digit	7.296	9.147	1.852

Response:

- A. 1) LR-L-141 uses slightly different allocations of cost pools than I used. If one assumes that the LD41-LD44 & LD48 cost pools would allocate through the NONMODS methodology in a similar manner as they would when directly allocated, then the PRC version cost number would be 10.9845; 2) Substitute the presort CRA cost pools from USPS-LR-L-110 for the presort CRA cost pools currently in APWU-LR-1; 3) Classify the cost pools as they have been classified in APWU-LR-1 except for the LD41-LD44 & LD48 cost pools which have been aggregated with the NONMODS categories in APWU-LR-1 but here would be allocated as workshare proportional following PRC R2000-1 allocations, the 1MISC and 1SUPPORT categories are different in the PRC version but replace the 1SUPP and are allocated as workshare fixed; 4) Substitute model results from USPS-LR-L-110 to use in allocating the presort costs to workshare categories; 5) use the PRC version of unit delivery costs for all the categories as calculated in USPS-LR-L-147, with the total nonauto presort cost being weighted up from the component costs using base year volume weights.
- B. Not confirmed. If the PRC costs were used and the cost pools were reallocated according to the USPS LR-L-141 allocations for nonauto presort, then I would not characterize the resulting numbers as "APWU unit cost savings". If one were to use the PRC costs and follow the steps listed in the answer to "A" the results are shown in column 2 of the table below.

First-Class Rate Category	<i>APWU</i> Unit Cost Savings		
	(USPS Attributable Costs with Oct. 12 th revisions) (Cents)	Unit Cost Savings (PRC Attributable Costs) (Cents)	Increase in Unit Cost Savings (Cents) (2) - (1)
BMM Letters (Benchmark)			
Nonautomation	3.920	4.573	0.653
Auto MAADC	4.200	4.434	0.234
Auto AADC	5.409	5.803	0.394
Auto 3-Digit	5.838	6.293	0.455
Auto 5-Digit	7.320	7.478	0.158

MMNAPWU-TI-29

Please refer to APWU-LR-1, page 3, table 3, where you show the de-averaged mail processing unit costs for Presorted letters.

- A. Please confirm that the table below reproduces your derived unit costs for Nonautomation Machinable Mixed AADC letters (NAMMA) and Automation Mixed AADC letters (Auto MAADC). If you cannot confirm, please explain and provide the correct modeled and total unit costs that you recommend that the Commission use to derived workshared cost savings.

First-Class Letter Category	Modeled Mail Processing Unit. cost	Total Mail Processing Unit cost
Auto MAADC	4.616	6.328
NAMM	4.505	6.173
Difference	0.112	0.155

- B. Please confirm that, according to your cost analysis, it costs the Postal Service more to process Auto MAADC letters that include a prebarcode than NAMMA letters, which have to be barcoded by the Postal Service. If you cannot confirm, please explain.

Response:

- A. Not confirmed. The NAAMA total mail processing cost is 6.224 (see APWU-LR-1, page 1, revised October 12, 2006).
- B. The models indicate that a higher percentage of the auto MAADC letters are being manually processed than are the nonauto mixed AADC letters and that a smaller percentage of them end up in DPS.

MMAIPWU-TI-30

Please refer to APWU-LR-1, page 1, column 3 where you show the worksharing related unit delivery costs that you have utilized in your workshared cost savings analysis. Your unit delivery costs are shown in the table below:

First-class Presort Category	unit Delivery cost	Unit Delivery cost Savings
Nonautomation	4.696	
Auto MAADC	4.260	0.436
Auto AADC	4.110	0.586
Auto 3-Digits	4.050	0.646
Auto 5-Digits	3.770	0.926

- A. Please confirm that the delivery unit costs, and unit delivery cost savings, as shown in the table, are correct. If you cannot confirm, please explain why not, provide a table in the same form as that above with any corrected figures, and show how your corrected figures are derived.
- B. Please confirm that your source for the Nonautomation unit delivery cost of 4.696 cents is Library Reference USPS-LR-L-67 (UDCModel.USPS.xls, Table 1). If you cannot confirm, please explain and provide your source for this information.
- C. Please confirm that the source for your Automation unit delivery costs is Tr. 12/3336, USPS witness Kelley's response to ABA-NAPM/USPS-T2(b). If you cannot confirm, please explain and provide your source for this information.
- D. Please confirm that the Nonautomation unit delivery cost has been deaveraged from all Presorted unit delivery costs in Library Reference USPS-LR-L-67 based on Delivery Point Sequencing percentages (DPS %) that USPS witness Kelley obtains from carrier data systems. See Tr. 12/3350, USPS Kelley's Response to MMA/USPS-T30-5. If you cannot confirm, please explain.
- E. Please confirm that, in his response to Interrogatory ABA-NAPM/USPST22-

2 (b), USPS witness Kelley claims, " . . . the results in the table below are driven by DPS percentages derived from a theoretical model which we no longer believe to be valid.' See Tr. 12/3335. If you cannot confirm, please explain.

- F. Please confirm that the theoretical DPS %s that are used to de-average Automation delivery costs to the various presort levels you show in APWU-LR-1, page 1, column 3 are based on the cost analyses (and associated mail flow models) that you show on pages 5-9 of APWU-LR-1. If you cannot confirm, please provide the source of the DPS %s that you relied upon to de-average Presorted letters costs utilized in APWU-LR-1, page 1, column 3.
- G. Please explain why it is appropriate to derive unit delivery cost savings by comparing unit delivery costs for Nonautomation letters (derived on the basis of DPS %s obtained from the USPS carrier data systems) to the separate presort categories within Automation letters (derived on the basis of DPS %s obtained from a theoretical model which the Postal Service no longer believes is valid)?

Response:

- A. Confirmed.
- B. Confirmed.
- C. Confirmed that it is **ABA-NAPM/USPS-T22-2(b)** at Tr. 12/1336.
- D. Confirmed.
- E. Confirmed.
- F. The source of the numbers is **ABA-NAPM/USPS-T22-2(b)** and uses the DPS percentages that Mr. Kelly used in his response to that question. I believe they are based on the implicit mail flow model DPS percentages but I did not deaverage the ~~costs~~ myself.
- G. As Mr. Kelley stated in his response to **ABA-NAPM/USPS-T22-2(b)** the carrier cost system records used to estimate the nonautomation unit delivery cost numbers do not provide detail to the rate category level within

automation letters. Consequently, if one is going to include the unit delivery cost numbers in the cost avoided calculations it is necessary to either use a single estimate based on the average for all automation letters, as derived from the carrier cost system records or to deaverage that number based on the information that is available. Assuming that every category within automation letters has the same unit delivery cost is probably not accurate, although that is implicitly the assumption the **Postal** Service made in its calculations for **USPS-LR-L-48**. Whether estimates that are based on model derived **DPS** percentages are more accurate than the assumption that each rate category has the same unit delivery cost can not be known. It was the information available in the record.

MMA/APWU-T1-31

Please refer to APWU-LR-1, page 3, especially where you indicate that the model derived work shared related unit cost (before any CRA adjustment) for Automation Mixed AADC letters (Auto MAADC) is 4.616 cents.

- A. Please confirm that the source of this unit cost figure is APWU-LR-1, page 5, which in turn, comes from Library Reference USPS-LR-L-48. p. 4. If you cannot confirm, please explain and provide your source for this figure.
- B. Please confirm that the original source for this figure from Library Reference USPS-LR-L-48, p. 4 is based on the mail-flow model that is shown on p. 5 of that same library reference. If you cannot confirm, please explain and provide your source for this figure.
- C. Please confirm that, as shown in the mail-flow model on page 5 of Library Reference USPS-LR-L-48, all 10,000 of the theoretical letters are shown to enter the mailstream at the Outgoing Secondary Automation (Out Sec Auto) operation. If you cannot confirm, please explain.
- D. Please confirm that Auto MAADC letters are assumed to enter the mailstream at the Out Sec Auto operation because such letters are prebarcoded, meaning they bypass the Remote Bar Code System (RBCS), and are presorted to such a degree that they bypass the Outgoing Primary Automation operation. If you cannot confirm, please explain,
- E. Please confirm that, if Auto MAADC letters were assumed to be nonprebarcoded and nonpresorted, these letters would enter the mailstream at the Outgoing ISS (Out ISS) operation within the outgoing RBCS. If you cannot confirm, please explain.
- F. Please confirm that, as shown in USPS-LR-L-141, p 4, BMM is assumed to enter the mailstream at the Out ISS operation within the outgoing RBCS. If you do not confirm, please explain where BMM enters the mailstream and support your answer.
- G. Please confirm that, if Auto MAADC letters were assumed to be

nonprebarcoded and nonpresorted. and the model shown on p. 5 of Library Reference USPS-LR-L-48 was modified to enter all 10,000 letters in the Out ISS operation of the outgoing RBCS, the resulting unit cost would be 4.505 cents. If you cannot confirm, please explain.

- H. If you confirm Part G, please confirm that, according to the mail flow model that you relied on, it would cost the Postal Service less to process Auto MAADC letters if mailers did not provide 3 prebarcode and did not presort the mail. If you cannot confirm, please explain.

Response:

- A. Confirmed.
- B. Confirmed.
- C. Confirmed.
- D. That is what the model shows.
- E. Confirmed.
- F. BMM enters at the Outgoing ISS operation.
- G. If the entry point of the model was changed from Outgoing Secondary Automation to Outgoing ISS that would be the result.
- H. Confirmed.

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF MMA

MMA/APWU-T1-32

Please refer to page 15 of your direct testimony where you state, "it seems highly unlikely that the mail that is converting to presort mail is equivalent to the average collection mail that is coming from individual households, nonprofit organizations, and small businesses." Please also refer to your response to MMA/APWU-T1-1 where you indicate that First-class Presorted volumes increased by 3.7% in FY 2005.

- A. Please confirm that while First-class Presorted volumes increased in FY 2005, First-class Single Piece volumes decreased by about **4%**. If you cannot confirm, please indicate by how much First-class Single Piece volumes decreased in FY 2005 and support your answer.
- B. Please confirm that you have not studied the possible shift of letters from First Class Single Piece to Presorted, but that you feel "there probably is some Single Piece mail that is still shifting from one category to the other." See your response to MMNAPWU-TI-1.
- C. Please define precisely what you mean by a "shift" of letters from First-class Single Piece to Presorted. Do you mean, for example, that letters no longer sent out as First-class Single Piece are now sent out as First-class Presorted? If not, please explain precisely what you mean by a "shift" of letters from Single Piece to Presorted.
- D. Please assume that you are a dutiful niece who for years sent monthly letters to your Aunt Minnie. Assume further that all these letters exhibited the cost attributes similar to an "average" First-Class single piece letter. **Now**, in 2005 you and your Aunt Minnie discovered the Internet and you substituted your 12 monthly letters with 12 monthly emails. Please confirm that, as far as the Postal Service is concerned, those letters are lost to the system and First-Class Single Piece has lost 12 "average" Single Piece letters. If you cannot confirm, please explain.
- E. Please assume that you also enjoy calling your Aunt Minnie as well, and in

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF MMA

2005 you decided to sign up for a cell phone. The cell phone company sent you 12 monthly bills in 2005, all of which qualified as Automation letters. Please confirm that, as far as the Postal Service is concerned, those letters are new to the system and First-class Automation has gained 12 pieces that are similar to an "average" Automation letter. If you cannot confirm, please explain.

- F. Please confirm that, as far as the Postal Service is concerned, the 12 "average" Single Piece letters lost and the 12 "average" Automation letters gained represent a "shift" of letters from First-class Single Piece to Presorted. If you cannot confirm, please explain.

Response:

- A. Confirmed,
- B. Confirmed.
- C. A piece that would have previously been mailed as a Single Piece First Class piece is now mailed as a Presort First Class piece.
- D. The Postal Service would count only the net change in the number of Single Piece letters. While the number would be lower by 12 than it otherwise would have been, the Postal Service has no way of determining that.
- E. The Postal Service would count only the net change in the number of automation letters. While that number would be 12 higher than it would have been without those bills, the Postal Service would have no way of determining that.
- F. Not confirmed. There have been net change; in two sets of numbers. The Postal Service is not going to have perceived a "shift" of 12 letters. Nor is this the definition of a shift defined in C.

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF NAPM

NAPM/APWU-T-1-1. Please refer to page 7 of your testimony where you quote the Postal Rate Commission's Opinion in R2000-1, as follows:

This may mean that the institutional cost burden of First-class workshare mail is increasing. However, when discounts pass through 100 percent of avoided costs to the workshare mailer, the contribution made by that mailer to institutional costs is the same as the mailer would have made without worksharing. Thus, workshare mailers and non-workshare mailers provide the same contribution, which is fair and equitable.

- a. Please confirm that discounts set at 100 percent of avoided costs are both fair and equitable. If you cannot confirm, please explain why.
- b. Please confirm that, in general, you would endorse setting rates so that discounts pass through 100 percent of avoided costs.
- c. Please explain the circumstances under which you would endorse discounts that exceed or are smaller than avoided costs.

Response:

- a. Fair and equitable as used in postal rate proceedings is, as I understand it, a legal concept contained in the PRA and I am not a lawyer. As I stated in my testimony, setting discounts equal to costs avoided provides a basis for ensuring that a piece of mail would pay the same contribution to overhead whether or not it was workshared.
- b. I think the pass through of 100 percent of costs avoided provides the correct economic signals. For an agency that must weigh efficiency against its public policy responsibilities to the American public at large, I recognize that may not be the only criterion for a decision.
- c. For a new discount and for any discount where the costs are difficult to determine, the Postal Service should err on the side of a smaller pass through because once a discount is in place it is **very** hard to reduce. There is an argument that, in cases where it is uncertain how a discount would operate, there is a reason for the Postal Service to be conservative in

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF NAPM

setting the discount until the impacts are better understood. The rates that I have proposed in my testimony pass through more than costs avoided for several rate categories. **As** was stated in my testimony, this proposal was made to reduce the possibility of rate shock with the goal **of** making a full adjustment at a later date.

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KATHRYN KOBE TO INTERROGATORIES OF NAPM

NAPM/APWU-T-1-2. Please confirm that in Table 4 on page 21 of your testimony (APWU-T-1), the Total Worksharing Related Unit Cost Savings in column (5) are equivalent to costs avoided.

Response:

They are a proxy for costs avoided. The Bulk Metered Mail letter benchmark can not be measured directly and can only be derived from a broader category that is measured; therefore, it is quite possible there are costs in the workshare related cost pools used to proxy the BMM costs that are not applicable to BMM letters.

RESPONSES OF AMERICAN AIRCRAFT WORKERS UNION, AFL-CIO
KATHRYN KOBE TO INTERROGATORIES OF NLRB

NAPM/APWU-T-1-3. Please confirm that, in general, you believe that discounts and costs avoided should be measured on an on a cumulative basis (i.e. from the benchmark to each rate category) rather than on an incremental basis (i.e. from one rate category to the next). If you do not confirm, please reconcile your response to how you have presented discounts and cost avoidances in your testimony.

Response:

I presented the costs avoided from a single benchmark point in Table 1. If the discounts are set equal to costs avoided, the incremental approach would come out to the same place as a calculation from a single benchmark point. It is only in a case where the pass through is not 100% that there is a difference. In this instance I set the nonauto presort discount to equal the costs avoided but the discount for AADC was set to be greater than costs avoided. The other proposed automated rates were set very close to the incremental costs avoided from the rate category directly "above" it. However, I do not consider the other automated rates to be in alignment just because the incremental differences are met.

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KATHRYN KOBE TO INTERROGATORIES ~~OF~~ NAPM

NAPM/APWU-T-1-4. Please refer to pages **6-7** of your testimony (APWU-T-1), where you state, in pertinent part, that "[d]ifferences in per unit costs based on differences in the total CRA costs for Presort mail and Single Piece mail may reflect a whole range of characteristics that do not relate to the cost avoidances for workshare activity." Please list all the nonworksharing characteristics that you believe could have a material effect on the cost of mail processing for Single Piece letter shaped mail and Presort letter-shaped mail.

Response:

I do not think it is possible to list all of the characteristics. Size and shape of the envelopes, hand written or typed addresses, geographic distribution of the mail, the choices the Postal Service makes for how to process that mail, the accuracy of the address are some of the factors **but** it is *not* an exhaustive list.

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF NAPM

NAPM/APWU-T-1-5. Please produce any economic or operational analyses you have performed or relied upon to support your classification of cost pools as proportional, worksharing related-fixed, or non-worksharing related-fixed. Please also provide electronic files and narrative explanation or instructions sufficient to enable interested parties to understand, test and replicate your analyses.

Response:

As I stated in my testimony, I have mostly allocated those categories as they were used in the past rate cases. The changes I made had to do with changes in configuration of the costs pools in the past few years. I looked at Mr. Abdirahman's descriptions of the cost pools and why he allocated them the way he did as presented in **POIR 4** Question 11 in the **R2005-1** Docket. I considered the responses of **Mr.** Abdirahman, Mr. Miller, and **Mr.** McCrery to various operational questions. I considered the various responses of Ms. Van-Ty-Smith to questions about the changes in cost pools that were asked in earlier cases. I also considered some anecdotal information from mail processing clerks on what activities took place in specific operations but **I would** not call consideration of this data an operational analysis.

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KATHRYN KOBE TO INTERROGATORIES OF NAPM

NAPM/APWU-T-1-6. Please refer to pages 5 and 6 of your testimony (APWU-T-1), where you discuss "clean" mail and "dirty" mail in the Single-Piece First-class letters mail stream.

a. Please identify the complete set of characteristics that distinguishes "clean" mail from "dirty" mail, as you use the terms.

b. Please confirm that if Single-Piece First-class letter rates were deaveraged across the set of characteristics defining "clean" mail and "dirty" mail and rates were set to comport with the Efficient Component Pricing Rule, the per-unit contribution for "clean" mail and "dirty" mail would be the same. Please explain fully any failure to confirm without qualification.

c. Please confirm that deaveraging across this set of characteristics would provide better pricing signals for efficient behavior than the current pricing approach. Please explain fully any failure to confirm without qualification.

d. Please confirm that deaveraging across this set of characteristics would reduce total combined mailing costs in the society as compared to the current pricing approach. Please explain fully any failure to confirm without qualification.

Response:

- a. See Response to MMA/APWU-T1-3 (a).
- b. The Efficient Component Pricing Rule is used for determining worksharing related costs avoided. The Postal Service does not produce clean or dirty mail, it simply processes what is presented to it. Consequently, one can not replace a Postal Service activity related to producing a clean mail piece with a similar mailer activity. Consequently, your question about the resulting equal contributions to overhead can not be answered in that context.

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF NAPM

- c. As was stated in (b), the Postal Service does not produce clean or dirty mail, therefore, such a deaveraging would not be based on a worksharing concept with the usual costs avoided calculations. If by deaveraging across these characteristics you are simply proposing offering clean mail a lower rate than dirty mail then there would be a clearer signal for leakage in the system. Existing mail with clean characteristics would stop paying the higher contribution it pays now and would pay a lower contribution assuming it was nearly costless for them to determine the correct new rates and get the new stamps or run the new meter strips. Whether it would produce more efficient behavior is not clear. That would depend on whether or not the discount was large enough to cover single piece mailers' costs of converting a dirty piece to a clean piece and if the resulting clean piece still fit the objective of the mailer. For example, a birthday card may not be readily convertible into all the characteristics of the cleanest piece of mail. Particularly for households it might also depend on the convenience and transaction cost of using multiple rate stamps. There is also a question as to whether it might provide some mailers an incentive to make changes that cost them more than the discount they would receive from the lower price. Sometimes, if the price differential is small, the most efficient behavior is to not make any change. I am not aware of studies that show what level of incentive is necessary for Single Piece users to convert a dirty piece of mail to a clean piece or that measure whether such an incentive level is consistent with the differentials that might be produced under a system of price deaveraging as you seem to propose. A deaveraging such as the one proposed would also be a significant move away from the policy of a uniform rate for letter mail.
- d. Not confirmed. Deaveraging across characteristics, depending on the extent to which it was taken, could result in a multitude of rates about which Single Piece users would have to make decisions. Transactions costs are added to the extent Single Piece users spend time trying to

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KATHRYN KOBE TO INTERROGATORIES OF NAPM

figure out which rate would apply and tracking down the "right" postage for their piece of mail. Postal Service revenue verification and protection costs and difficulties would likely increase as would the costs of customer education and service to assist Single Piece mailers in determining the correct postage. To the extent some people would expend more than postage savings to convert to cleaner characteristics, there would be additional costs. It would reduce the postage for mailers who are already mailing clean mail but whether it would overcome their transaction costs is not clear. The significance of transaction costs for Single Piece users, especially households, can be seen in the appeal of the Forever stamp. People do not want to expend the time and energy to deal with procuring and making decisions about "make-up" stamps. The Postal Service also expends resources on making those transactions.

Response of Kathryn Kobe to the Interrogatory of the United States Postal Service

USPS/APWU-T1-1

Please refer to APWU-LR-2, Excel file **FirstClassRevReqttest**. The spreadsheet **FCwprvolch** shows your proposed Single Piece First-class Mail letter rate of \$0.41 and a Qualified Business Reply Mail (QBRM) rate of \$0.395, which is unchanged from the Postal Service proposal.

- A. Please confirm that your rate results in a reduction of the QBRM discount from 2.5 cents to only 1.5 cents.
- B. If you intended to lower the discount, please provide the necessary support for the reduction of the discount.
- C. If you did not intend to lower the discount, please provide the revised volume forecast for First-class Letters & Flats, Single-Piece, in Table A-1 of your testimony and for your library reference, that will result from a QBRM rate of \$0.385.

Response:

- A. Confirmed
- B. I did not make my own calculations of the QBRM costs avoided. However, Mr. Abdirahman's testimony indicates the QBRM cost savings at 1.5 cents (see Table 2 on page 21 of USPS T-22). Consequently, maintaining the QBRM rate at the level the Postal Service proposed of 39.5 cents would appear to be consistent with a 100% pass through of costs avoided, as the Postal Service has calculated them.
- C. N/A

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KATHRYN KOBE TO INTERROGATORIES OF USPS

USPS/APWU-T1-2 On page 16 of your testimony, lines 4 to 6, you state “The general steps followed by the Postal Service to calculate the unit cost savings between the benchmark piece and the presort pieces in previous cases were followed to produce the unit cost savings”.

- a. Please describe each difference between your unit cost savings calculations methodology and the methodology followed by USPS witness Abdirahman in Docket No. R2005-1.
- b. Please describe each difference between your unit cost savings calculations methodology and the methodology followed by the Commission in R2000-1.
- c. Please describe each difference between your unit cost savings calculations methodology and the methodology presented in USPS-LR-L-141.

Response:

- a. The main differences between the calculation of my unit cost savings and the methodology followed by USPS witness Abdirahman in Docket No. R2005-1 consist of the following: 1) I used the combined nonautomated and automated presort cost pools and allocated them using the models witness Abdirahman produced for R2006-1; in R2005-1 Mr. Abdirahman used separate CRA totals for those two groups although he stated at that time that the division of costs between the two types of presort letters **was** unreliable; 2) witness Abdirahman allocated the 1CANCEL cost pool to workshare-related fixed and I allocated it to non-workshare related; 3) witness Abdirahman allocated the TRAYSORT cost pool to non-workshare related and I allocated it to workshare-related fixed; 4) I used the results of witness Abdirahman’s updated R2006-1 models to allocate the presort letter costs to the category level; 5) witness Abdirahman used the unit delivery costs for the nonautomated presort machinable

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Mixed AADC letters to proxy the BMM unit delivery cost and I used the nonautomated presort letter unit delivery cost.

- b. The main differences between my calculations and those of the Postal Rate Commission's calculations in R2000-1 consist of the following: 1) I used the USPS costs rather than the PRC-version costs; 2) the PRC allocated a third of the cost pool CANCMMP to workshare-related fixed but because that cost pool has now been split into two, I allocated the 1METERPRP cost pool to workshare-related fixed and the 1CANCEL cost pool to nonworkshare related; 3) the PRC allocated the LD41, LD42, LD43 and LD44 cost pools to workshare-related fixed, witness Van-Ty-Smith now combines those cost pools with the STNBRA NONMODS cost pools and I allocated the combined totals rather than the individual ones; 4) there are some new cost pools that did not exist in R2000-1 and with the exception of TRAYSORT which I allocated to workshare-related fixed, the new cost pools were allocated to nonworkshare related; 5) I used a combined presort letter CRA rather than using separate ones for nonautomated and automated presort.
- c. The main differences between my calculations and those in USPS-LR-L-141 are: 1) I used the USPS costs rather than the PRC-version costs; 2) I allocated ICANCEL to non-workshare related and in LR-L-141 that was allocated to workshare-related fixed; 3) I allocated TRAYSORT to workshare-related fixed and in LR-L-141 it was allocated to non-workshare related; 4) separate cost pools for LD41, LD42, LD43, LD44 were produced for LR-L-141 rather than using the methodology of allocating those cost pools by combining them with the STNBRA NONMODS cost pools and allocating them together (witness Van-Ty-Smith's methodology in R2006-1 and the methodology I used); 5) I used the combined CRA for presort letters and in LR-L-141 separate nonautomated presort and automated presort CRAs were used although there does not appear to have been a correction for the misallocation problems mentioned in witness Abdirahman's testimony;

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6) I followed the PRCs previous methodology of using the nonautomated presort letter unit delivery costs as a proxy for BMM letters unit delivery costs and LR-L-141 used the nonautomated machinable presort mixed AADC unit delivery cost as a proxy for BMM letters unit delivery *costs*.

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USPSAPWU-T1-3 Would the BMM benchmark approach to developing cost avoidances be compatible with a 42 cent single piece rate? If not, please explain why *not*.

Response:

While in theory there is nothing incompatible between the *BMM* benchmark approach to developing cost avoidances and the use of a 42 cent Single Piece rate, in this case it is problematic. Once the 42 cent rate is set, the overhead contributions of each Single Piece letter is going to be the same as it was under the Postal Service's proposal. If the discounts for the workshare letters are reduced to better coincide with the costs avoided calculations, it is virtually certain that the revenue requirement will be exceeded. Therefore, other rate adjustments also will have to be made in order to reduce the revenue requirement to the requested level.

As discussed in prior decisions, "[t]he Commission also has consistently been concerned with equity. From the beginning it has wanted to set the discount no larger than the clearly capturable avoided costs, so that the residual mailers would not experience a rate increase because some other mailers were encouraged to workshare." (MC95-1 at 3076 p. III-30.) If discounts equal 100% of costs avoided, a letter pays the same contribution whether mailed as a single piece or as part of a workshare mailing. With such rates, single piece users should not have any upward pressure on their rates because of the discounts. Therefore, when the calculated costs avoided were smaller than the proposed discounts, this goal made it logical to see if the Single Piece rate could be reduced to **41** cents. Since it was possible to do so without the workshare rates increasing by much more than the Postal Service's proposed rate increase for the entire case, it implied that the discounts proposed by the USPS in this case could well be putting upward pressure on Single Piece rates. There might be adjustments to the rates, other than the ones I have proposed, that could achieve this same goal while maintaining the 42 cent Single Piece rate; I have not looked at every rate combination possible.

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USPS-APWU-T-1-4 Please confirm that in the past three cases, the Postal Service developed the cost basis for Nonautomation Presort letters separately from the costs for automation Presort letters. If you cannot confirm, please explain.

Response:

Confirmed that in the three cases prior to this one the Postal Service developed the cost basis for nonautomation presort letters separately from those of automation presort letters.

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USPS-APWU-T-1-5 Please confirm that in USPS-LR-141, the cost basis for Nonautomation Presort letters is developed separately from the costs for automation Presort letters. If you cannot confirm, please explain.

Response:

Confirmed.

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USPS-APWU-T-1-6 Please refer to Witness Smith's response to APWU/USPST13-2 confirming First Class metered letter-shaped mail (USPS version) for the FY '08 Test Year which was attached in that interrogatory.

- a) Please confirm that the total unit cost for First Class metered letters which is used as a proxy for BMM is **11.250** cents. If you cannot confirm please explain.
- b) Please confirm that table A-2 of your testimony, page 27 shows the total unit cost for First Class metered letters which **is** used as a proxy for BMM is 11.2209 cents. If you cannot confirm please explain.
- c) Please reconcile the above unit costs. **If you** cannot reconcile, please explain why?

Response:

- a) Confirmed
- b) Confirmed
- c) Table **A-2** inadvertently used the Test Year before final adjustments calculation instead of the Test Year **after** final adjustments that Mr. Smith confirmed. Revised testimony was filed on October 12, 2006 to reconcile this inconsistency.

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USPS-APWU-TI-7 Please confirm that if you used, in APWU-LR-L-1, the BMM cost pool classifications that USPS witness Abdirahman used in Docket No.

R2005-1, USPS-LR-K-48 that the following would result:

- a) The workshared related proportional unit cost would be 6.987 cents.
- b) The workshared related fixed unit **cost** would be 2.753 cents.
- c) The nonworkshared related fixed unit cost would be 1.510 cents.

If you cannot confirm any one of these, please explain and provide the appropriate number along with your analysis.

Response:

- a) Confirmed (based on numbers in revised testimony filed October 12, 2006).
- b) Confirmed (based on numbers in revised testimony filed October 12, 2006).
- c) Confirmed (based on numbers in revised testimony filed October 12, 2006).

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KATHRYN KOBE TO INTERROGATORIES OF **USPS**

USPS-APWU-T1-8 Please confirm that USPS-LR-L-147, revised on 8/23/06, contains a PRC version delivery cost of 4.126 cents for nonautomation machinable mixed **AADC** letter pieces. If cannot confirm, please explain.

Response:

Confirmed.

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USPS/APWU/T1-9

Please refer to your testimony on page 4 where you state:

In stating that the Presort letter rates would no longer look to the cost base of Single Piece letters, the Postal Service is deaveraging Presort letters and Single Piece letters. From the inception of First Class workshare discounts, there has been an understanding by both the Postal Service and the Commission that discounts must be justified by costs avoided so that similar letters being provided First Class service bear the same amount of the institutional costs of the Postal network.

- a. Please confirm that the delinking methodology proposed by the Postal Service makes it a target that the per-unit contribution from single-piece and presort mail categories are equal and in fact achieve very similar per unit contribution from these mail categories. If you cannot confirm, please explain.
- b. Please confirm that by making equal per-unit contribution a target for single-piece and presort mail, the Postal Service's proposal seeks to achieve the goal of ensuring that "similar letters being provided First Class service bear the same amount of the institutional costs of the Postal network." If you cannot confirm. please explain.

Response:

- a. Confirmed that Mr. Taufique, on page 15 of his testimony, states "[t]he Postal Service proposes that the rate design process begin with establishment of separate revenue requirements for Single-Piece Letters and Presort Letters, with the goal of obtaining similar unit contributions from Single-Piece Letters in the aggregate and from Presort Letters in the aggregate." On page 16 of his testimony he lists the applicable rates for the Single-Piece Letters aggregate to include all the components of the Single-Piece Letters, Flats & Parcels category. Similar unit contributions from such heterogeneous groups is not the same as a piece making the same unit contribution whether or not it is workshared.
- b. Not confirmed. A goal of obtaining equal contributions on average from these two categories is different from obtaining the same contribution from

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two pieces that are essentially the same except that one is workshared and one is not. These two categories are likely to have differing distributions of mail both by shape and by other characteristics. Unless two very similar pieces are compared in setting the rate differentials, it is unlikely that a piece in one group will make the same contribution to overhead costs as an identical piece in the other group.

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USPSIAPWU-TI-10

Please refer to your testimony on page 7 where you state:

Thus, the proposed methodology, which essentially applies equal contributions to the straight **CRA** costs, would result in the mailer of the Single Piece "clean" letter paying a larger contribution to overhead than the mailer of the Presort "clean" letter and would constitute a change in an important postal policy.

Assume that, even with a cost avoidance methodology using **BMM** as a benchmark, the rate for Single-Piece First-class Mail recommended by the Commission could be **42** cents, instead of the **41** cents that you propose. Please confirm that the under that scenario, the Single-Piece "clean" letter would pay the same larger contribution to the overhead described in your testimony as it would under the proposed delinking methodology. If you do not confirm, please explain.

Response:

If the Single Piece rate is set to 42 cents rather than 41 cents, the "clean" Single Piece letter will pay the same contribution to overhead as it would under the Postal Service proposal. However, that does not address the contribution to overhead that would be made by the similar "clean" presort piece. An adjustment to the discounts would increase the contribution to overhead from that letter. The overall impact would also depend on what other adjustments were made to rates to generate the requested revenue

1 CHAIRMAN OMAS: Mr. Hall?

2 MR. HALL: Yes, Mr. Chairman. I have one
3 additional designation of MMA/APWU-T1-33 if I can get
4 up to the witness stand.

5 CHAIRMAN OMAS: Close quarters.

6 MR. HALL: Now, if you were asked the
7 question in the interrogatory would your answer be the
8 same as indicated there?

9 THE WITNESS: Yes.

10 MR. HALL: Okay. Also attached to it is
11 Library Reference APWU No. 3. Was that prepared by
12 you or under your direction and supervision?

13 THE WITNESS: This was prepared by me.

14 MR. HALL: Okay. Thank you. With that, Mr.
15 Chairman, I'd like to --

16 MR. ANDERSON: Mr. Chairman?

17 CHAIRMAN OMAS: Mr. Anderson?

18 MR. ANDERSON: Thank you, Mr. Chairman.

19 Mr. Hall, if you'll excuse me? I just
20 would like to make it clear that Ms. Kobe is not
21 sponsoring Library Reference 3, and therefore it has
22 no sponsor.

23 It was prepared by her at the request of MMA
24 along with her interrogatories, as I understand it,
25 but she is not a sponsor of Library Reference 3.

1 MR. HALL: I'm not sure how many questions I
2 have about it in any case, but I appreciate the
3 clarification.

4 CHAIRMAN OMAS: Okay. Thank you, Mr. Hall.
5 Is there any other? Mr. Levy?

6 MR. LEVY: Thank you, Mr. Chairman.

7 CHAIRMAN OMAS: Would you turn your mic on,
8 please?

9 MR. LEVY: Thank you.

10 CHAIRMAN OMAS: Mr. Hall?

11 MR. HALL: Before you begin, I did want that
12 to be transcribed.

13 CHAIRMAN OMAS: Without objection, yes.

14 MR. HALL: Thank you.

15 CHAIRMAN OMAS: Without objection. It will
16 be transcribed into the record.

17 (The document referred to was
18 marked for identification as
19 Exhibit No. MMA/APWU-T1-33
20 and was received in
21 evidence.)

22 //

23 //

24 //

25 //

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORY OF MMA

MMA/APWU-T1-33

Please refer to your response to MMA/APWU-T1-28 (b). In that interrogatory you were asked to confirm certain results had you replicated your worksharing cost savings analysis with only one change -- using the Commission's attributable costs rather than the Postal Service's attributable ~~costs~~. In the event you could not confirm the results, you were asked to provide corrected figures and to show how they were derived. You did provide corrected figures but did not provide the analysis that produced those results. Please provide the Excel file, similar to APWU-LR-1, that produced the specific figures that you provide in answer to MMA/APWU-T1-28 (b).

Response:

The numbers are provided in **Library** Reference APWU-LR-3, filed October 18, 2006.

FIRST-CLASS MAIL PRESORT LETTERS AND BMM SUMMARY
Using PRC costs

R2006-1

BENCHMARK RATE CATEGORY	Mail Processing		Delivery	Total	Total
	Total	Worksharing Related	Worksharing Related	Worksharing Related	Worksharing Related
	Unit Cost (1)	Unit Cost (2)	Unit Cost (3)	Unit Cost (4)	Unit Cost Savings (5)
Bulk Metered Mail (BMM) Letters		10.984	4.130	15.115	
Nonautomation Presort Letters		8.411	4.130	10.541	4.573
Nonautomation Nonmachinable Mixed ADC	27.066	26.465	9.008		
Nonautomation Nonmachinable ADC	21.574	20.973	9.008		
Nonautomation Nonmachinable 3-Digit	18.767	18.167	9.008		
Nonautomation Nonmachinable 5-Digit	9.898	9.297	9.008		
Nonautomation Machinable Mixed AADC	7.033	6.432	4.126		
Nonautomation Machinable AADC	7.033	6.432	4.126		
Nonautomation Machinable 3-Digit	6.525	5.924	3.962		
Nonautomation Machinable 5-Digit	6.525	5.924	3.962		
Automation Mixed AADC Letters	7.003	6.402	4.278	10.680	4.434
Automation AADC Letters	5.781	5.180	4.132	9.312	5.803
Automation 3-Digit Presort Letters	5.355	4.755	4.067	8.822	5.293
Automation 5-Digit Presort Letters	3.966	3.365	4.272	7.637	7.478
Automation Carrier Route Presort Letters	3.039	2.438	5.904	8.342	

USPS Proposed Discount From FC Single Piece Rate (6)	Amount by which Proposed USPS Discounts Exceed Costs Avoided (7)
2.0	-2.57
7.4	2.97
8.5	2.70
6.6	2.61
10.6	3.32

Sources

- (1) Worksheet "Presort Letter Sum"
 (2) Worksheets "CRA- Metered Letters", "Presort Letter Sum"
 (3) USPS-LR-L-147
 (4) Column (2) + Column (3)
 (5) Each line item in Column (4) subtracted from column (4) BMM Letters
 (6) Calculated from USPS proposed First Class Rate Schedule, Attachment A of Docket No. R2006-1 Request, page 4
 (7) Column (6) - Column (5)

**FIRST CLASS MAIL BULK METERED LETTERS
PRC CRA MAIL PROCESSING COSTS**

			Fixed (Cents)	
		Total	Proportio	Non
Cost Pool		(Cents)1/	nal	Workshar
			(Cents)	ing
				related
MODS 11	BCS/	0.000		
MODS 11	BCS/OBCS	2.679	2.6789	
MODS 11	OCR/	1.146	1.1462	
MODS 12	FSM 100	0.038		0.0383
MODS 12	FSM/	0.000		0.0000
MODS 12	FSM/1000	0.024		0.0242
MODS 13	MECPARC	0.000		0.0001
MODS 13	SPBS OTH	0.017		0.0168
MODS 13	SPBSPRIO	0.003		0.0031
MODS 13	1SACKS_M	0.018		0.0182
MODS 13	1TRAYSRT	0.242		0.2421
MODS 14	MANF	0.024		0.0235
MODS 14	MANL	1.453	1.4533	
MODS 14	MANP	0.005		0.0045
MODS 14	PRIORITY	0.009		0.0090
MODS 15	LD15	0.378	0.3782	
MODS 17	1CANCEL	0.668		0.6677
MODS 17	IDISPATCH	0.237		0.2370
MODS 17	1FLATPRP	0.053		0.0527
MODS 17	1MTRPREP	0.075		0.0752
MODS 17	1OPBULK	0.069		0.0687
MODS 17	1OPPREF	0.350		0.3503
MODS 17	1OPTTRANS	0.104		0.1041
MODS 17	1PLATFRM	1.134		1.1336
MODS 17	1POUCHNG	0.046		0.0464
MODS 17	1PRESORT	0.021		0.0212
MODS 17	1SACKS_H	0.046		0.0464
MODS 17	1SCAN	0.073		0.0734
MODS 18	BUSREPLY	0.014		0.0141
MODS 18	EXPRESS	0.006		0.0058
MODS 18	MAILGRAM	0.004		0.0036
MODS 18	REGISTRY	0.010		0.0104
MODS 18	REWRAP	0.014		0.0141
MODS 18	1EEQMT	0.049		0.0485
MODS 18	1MISC	0.195		0.195
MODS 18	1SUPPORT	0.048		0.048
MODS 19	INTL	0.017		0.0171
MODS 19	PMPC	0.000		0.0000
MODS 41	LD41	0.061	0.061	
MODS 42	LD42	0.001	0.001	
MODS 43	LD43	0.558	0.558	
MODS 44	LD44	0.221	0.221	
MODS 48	LD48 EXP	0.009		0.0088
MODS 48	LD48 OTHER	0.104		0.1044
MODS 48	LD48_ADM	0.113		0.1130
MODS 48	LD48_SSV	0.043		0.0428
MODS 49	LD49	0.258		0.258
MODS 79	LD79	0.012		0.012
MODS 99	1SUPP_F1	0.000		
Mods Subtotal			6.4967	2.4513
				1.7014
BMCS	NMO	0.0000		0.0000
BMCS	OTHR	0.0012		0.0012
BMCS	PLA	0.0010		0.0010
BMCS	PSM	0.0000		0.0000
BMCS	SPB	0.0016		0.0016
BMCS	SSM	0.0000		0.0000
BMC Subtotal		0.0038	0.0000	0.0000
				0.0038
NON MODS	ALLIED	0.4253		0.4253
NON MODS	AUTO/MEC	0.3800	0.3800	
NON MODS	EXPRESS	0.0049		0.0049
NONMODS	MANF	0.0232		0.0232
NONMODS	MANL	1.2313	1.2313	
NON MODS	MANP	0.0027		0.0027
NONMODS	MISC	0.2945		0.2945
NONMODS	REGISTRY	0.1138		0.1138
Non Mods Subtotal		2.4758	1.6113	0.4391
				0.4253
Total		13.1287	8.1079	2.8766
				2.1442

**FIRST-CLASS MAIL LEITERS MAIL PROCESSING UNK COST SUMMARY
PRESORT LETTERS**

Table 1: CRA Mail Processing Unit Costs

Worksharing Related (Proportional) Cost Pools	1/	3.001
Other Worksharing Related (Fixed) Cost Pools	2/	1.398
Non-Worksharing Related (Fixed) Cost Pools	3/	0.601
Total	4/	5.000

Table 2: CRA Proportional Adjustment Factor

Base Model Costs	Model Cost [1]	BY 2005 Volume [2]	Volume % [3]	
Nonautomation Nonmachinable Mixed ADC	25.862	10,182,258	0.02%	9.008
Nonautomation Nonmachinable ADC	20.196	4,816,879	0.01%	9.008
Nonautomation Nonmachinable 3-Digit	17.300	6,177,830	0.01%	9.008
Nonautomation Nonmachinable 5-Digit	8.150	1,250,323	0.00%	9.008
Nonautomation Machinable Mixed AADC	5.193	716,553,574	1.49%	4.126
Nonautomation Machinable AADC	5.193	238,935,667	0.50%	4.126
Nonautomation Machinable 3-Digit	4.670	625,848,904	1.30%	3.992
Nonautomation Machinable 5-Digit	4.670	135,548,214	0.28%	3.992
Automation Mixed AADC	5.163	2,875,271,559	5.97%	4.130296196
Automation AADC	3.902	2,500,364,324	5.19%	
Automation 3-Digit	3.463	22,908,987,750	47.58%	
Automation 5-Digit	2.029	17,449,670,830	36.24%	
Automation Carrier Route	1.073	673,921,132	1.40%	
Total Weighted Model Cost	5/	48,147,532,845	100.00%	
CRA Proportional Adjustment				

Rate Category	Worksharing		Non	Total
	Model Unit Cost [4]	Related Unit Cost [5]	Worksharing Unit Cost [6]	Mail Proc Unit Cost [7]
Nonautomation Nonmachinable Mixed ADC	25	26.465	0.601	27.066
Nonautomation Nonmachinable ADC	20.188	20.973	0.601	21.574
Nonautomation Nonmachinable 3-Digit	17.300	18.161	0.601	18.767
Nonautomation Nonmachinable 5-Digit	8.150	9.297	0.601	9.898
Nonautomation Machinable Mixed AADC	5.193	6.432	0.601	7.033
Nonautomation Machinable AADC	5.193	6.432	0.601	7.033
Nonautomation Machinable 3-Digit	4.670	5.924	0.601	6.525
Nonautomation Machinable 5-Digit	4.670	5.924	0.601	6.525
Nonautomation Presort Combined		6.411	0.601	7.012
Automation Mixed AADC	5.163	6.402	0.601	7.003
Automation AADC	3.902	5.180	0.601	5.781
Automation 3-Digit	3.463	4.755	0.601	5.355
Automation 5-Digit	2.029	3.330	0.601	3.956
Automation Carrier Route	1.073	2.430	0.601	3.039

Sources

- [1] From Mailprocessing Model Cost Worksheets
 [2] LR-L-48 FCMxls, "BY 05 MCS LETTERS"
 [3] Volume in each row [2] divided by the total volume [2].
 [4] [1].
 [5] [4] x (6) + (2).
 [6] (3).
 [7] [5] + [6].

- 1/: CRA-Presort Letters, sum of worksharing proportional cost pools
 2/: CRA Presort Letters, sum of worksharing fixed cost pools
 3/: CRA Presort Letters, sum of nonworksharing cost pools
 4/: [1] + [2] + [3].
 5/: Weighted Average of Modeled costs from [1] weighted by volume percentages in [3].
 6/: (1) / (5).

**FIRST CLASS MAIL PRESORT LETTERS
CRA MAIL PROCESSING COSTS**

Cost Pools		Total (Cents)	Proportio nal (Cents)	Workshar ing related (Cents)	Non Workshar ing related (Cents)
MODS 11	BCS/	0.000			
MODS 11	BCS/DBCS	1.486	1.4885		
MODS 11	OCR/	0.181	0.1810		
MODS 12	FSM 100	0.010			0.0101
MODS 12	FSM/	0.000			0.0000
MODS 12	FSM/1000	0.008			0.0082
MODS 13	MECPARC	0.000			0.0004
MODS 13	SPBSOTH	0.007			0.0072
MODS 13	SPBSPRIO	0.000			0.0000
MODS 13	1SACKS_M	0.011			0.0108
MODS 13	1TRAYSRT	0.163		0.1626	
MODS 14	MANF	0.005			0.0050
MODS 14	MANL	0.285	0.2845		
MODS 14	MANP	0.005			0.0052
MODS 14	PRIORITY	0.002			0.0019
MODS 15	LD15	0.077	0.0768		
MODS 17	1CANCEL	0.066			0.0664
MODS 17	1DISPATCH	0.087			0.0868
MODS 17	1FLATPRP	0.022			0.0221
MODS 17	1MTRPREP	0.011		0.0109	
MODS 17	1OPBULK	0.007		0.0366	
MODS 17	1OPPREF	0.180		0.1797	
MODS 17	1OPTTRANS	0.032			0.0321
MODS 17	1PLATFRM	0.433		0.4333	
MODS 17	1POUCHNG	0.017		0.0168	
MODS 17	1PRESORT	0.021		0.0213	
MODS 17	1SACKS_H	0.019			0.0194
MODS 17	1SCAN	0.034			0.0337
MODS 18	BUSREPLY	0.004			0.0036
MODS 18	EXPRESS	0.001			0.0013
MODS 18	MAILGRAM	0.001			0.0011
MODS 18	REGISTRY	0.001			0.0013
MODS 18	REWRAP	0.000			0.0032
MODS 18	1EEQMT	0.014			0.0135
MODS 18	1SUPPORT	0.058		0.0583	
MODS 18	1MISC	0.019		0.0188	
MODS 19	INTL	0.006			0.0060
MODS 18	PMPC	0.000			0.0000
MODS 41	LD41	0.027	0.027		
MODS 41	LD42	0.001	0.001		
MODS 43	LD43	0.182	0.182		
MODS 44	LD44	0.072	0.072		
MODS 48	LD48 EXP	0.005			0.0049
MODS 48	LD48 OTH	0.000			0.0358
MODS 48	LD48_ADM	0.030			0.0297
MODS 48	LD48_SSV	0.009			0.0085
MODS 49	LD49	0.207		0.2075	
MODS 79	LD79	0.114		0.1144	
MODS 63	1SUPP_F1	0.000			
		3.981	2.3027	1.2600	6.4184
Mods Subtotal					
BMCS	NMO	0.0000			0
BMCS	OTHR	0.0003			0.000333
BMCS	PLA	0.0005			0.000518
BMCS	PSM	0.0000			0
BMCS	SPB	0.0000			0
BMCS	SSM	0.0000			0
BMC Subtotal		0.0009	0	0	0.000851
NONMODS	ALLIED	0.1384		0.1384	
NONMODS	AUTO/MEC	0.2329	0.2329		
NONMODS	EXPRESS	0.0003			0.000269
NONMODS	MANF	0.0000			0
NONMODS	MANL	0.4650	0.4650		
NONMODS	MANP	0.0019			0.001853
NONMODS	MISC	0.1787			0.176682
NONMODS	REGISTRY	0.0028			0.002778
Non Mods Subtotal		1.0179	0.6979	0.1384	0.1816
Total		4.9998	3.0006	1.3984	6.6000

FIRST-CLASS AUTOMATION MIXED-AADC PRESORTED LEITERS COST SHEET

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
outgoing RBCS								
ISS	0	6,856	\$37.992	0.554	0.008	2.070	1.156	0.000
RCR	0	---	---	---	---	---	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
ASS	0	9,370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0.000
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	10,308	9,157	\$37.992	0.415	0.006	1.754	0.724	0.757
Manual	384	650	\$37.992	5.845	0.088	1.281	7.576	0.291
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0.000
RCR	0	---	---	---	---	---	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
incoming MMP								
Automation AADC	4,567	6,879	\$37.992	0.552	0.008	1.757	0.979	0.447
Manual AM:	547	563	\$37.992	6.520	0.098	1.281	8.450	0.462
Incoming SCF/Primary								
Automation	5,505	7,085	\$37.992	0.536	0.008	1.771	0.958	0.527
Manual	241	627	\$37.992	6.064	0.091	1.281	7.859	0.189
Incoming Secondaries								
Auto Carrier Route	1,944	7,560	\$37.992	0.503	0.008	1.774	0.899	0.175
Auto 3-Pass DPS	3,042	14,830	\$37.992	0.256	0.004	1.723	0.445	0.135
Auto 2-Pass DPS	14,431	9,401	\$37.992	0.404	0.006	1.742	0.710	1.025
Man Inc Sec Final At Plant	856	575	\$37.992	6.612	0.099	1.281	8.570	0.733
Man Inc Sec Final At DU	304	928	\$37.992	4.094	0.062	1.281	5.305	0.161
Box Section Sort, DPS	713	2,015	\$37.992	1.886	0.028	1.281	2.444	0.174
Box Section Sort, Other	177	1,007	\$37.992	3.771	0.057	1.281	4.888	0.087

Model Cast 1/ 5.163

Sources

LR-L-1 ID-MADC COST

FIRST-CLASS AUTOMATION AADC PRESORTED LETTERS COST SHEET

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	0	6,858	\$37.992	0.554	0.008	2.070	1.156	0000
RCR	0	—	—	—	—	—	0.094	0000
REC	0	767	\$21.974	2.792	0.042	1.369	3.864	0 w 0
OSS	0	9,370	\$37.992	0.405	0.006	1.758	0.718	0 w 0
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0 w 0
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0000
Manual	0	408	\$37.692	9.323	0.140	1.281	12.083	0 w 0
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0000
Manual	0	650	\$37.992	5.845	0.088	1.281	7.576	0 w 0
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0 w 0
RCR	0	—	—	—	—	—	0.094	0 w 0
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0 w 0
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0 w 0
Incoming MYP								
Automation AADC	10,079	6,879	\$37.992	0.552	0.008	1.757	0.979	0.986
Manual AADC	402	583	\$37.992	6.520	0.098	1.281	8.450	0.340
Incoming SCF/Primary								
Automation	1,961	7,085	\$37.992	0.536	0.008	1.771	0.958	0.188
Manual	92	627	\$37.992	6.064	0.091	1.281	7.859	0.072
Incoming Secondaries								
Auto Carrier Route	2,004	7,560	\$37.992	0.503	0.008	1.774	0.899	0.180
Auto 3-Pass DPS	3,135	14,830	\$37.992	0.256	0.004	1.723	0.445	0.140
Auto 2-Pass DPS	14,875	9,401	\$37.992	0.404	0.006	1.742	0.710	1.056
Man Inc Sec Final At Plant	655	575	\$37.992	6.612	0.099	1.281	8.570	0.561
Man Inc Sec Final At DU	232	928	\$37.992	4.094	0.062	1.281	5.305	0.123
Box Section Sort, DPS	735	2,015	\$37.992	1.886	0.028	1.281	2.444	0.180
Box Section Sort, Other	155	1,007	\$37.992	3.771	0.057	1.281	4.888	0.076
Model Cost 1/								3.902

Sources

LR-L-110 "Auto AADC Cost"

FIRST-CLASS AUTOMATION 3-DIGIT PRESORTED LEITERS COST SHEET

Total Pieces

l o . m

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Pmmum Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	0	6,856	\$37.992	0.554	0.008	2.070	1.156	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	767	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	9,370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0.000
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0.000
Manual	0	650	\$37.992	5.845	0.088	1.281	7.576	0.000
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	6,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Incoming MMP								
Automation AADC	0	6,679	\$37.992	0.552	0.008	1.757	0.979	0.000
Manual ADC	0	583	\$37.992	6.520	0.098	1.281	8.450	0.000
Incoming SCF/Primary								
Automation	10,000	7,085	\$37.992	0.536	0.008	1.771	0.958	0.958
Manual	340	627	\$37.992	6.064	0.091	1.281	7.859	0.267
Incoming Secondaries								
Auto Corner Route	2,031	7,560	\$37.992	0.503	0.008	1.774	0.899	0.183
Auto 3-Pass DPS	3,177	14,830	\$37.992	0.256	0.004	1.723	0.445	0.141
Auto 2-Pass DPS	15,075	9,401	\$37.992	0.404	0.006	1.742	0.710	1.070
Man Inc Sec Final At Plant	564	575	\$37.992	6.612	0.099	1.281	8.570	0.484
Man Inc Sec Final At DU	200	928	\$37.992	4.094	0.062	1.281	5.305	0.106
Box Section Sort. DPS	744	2,015	\$37.992	1.886	0.028	1.281	2.444	0.182
Box Section Sort. Other	146	1,007	\$37.992	3.771	0.057	1.281	4.808	0.071
Model Cost 1/								3.463

Sources

LR-L-110 "Auto 3-Digit Cost"

FIRST-CLASS AUTOMATION 5-DIGIT PRESORTED LETTERS COST SHEET

Total Pieces **10,000**

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	0	6,856	\$37.992	0.554	0.008	2.070	1.156	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	9,370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0.000
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0.000
Manual	0	650	\$37.992	5.845	0.088	1.281	7.576	0.000
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Incoming WMP								
Automation AADC	0	6,679	\$37.992	0.552	0.008	1.757	0.979	0.000
Manual ADC	0	583	\$37.992	6.520	0.098	1.281	8.450	0.000
Incoming SCF/Primary								
Automation	0	7,085	\$37.992	0.536	0.008	1.771	0.958	0.000
Manual	0	627	\$37.992	6.064	0.091	1.281	7.859	0.000
Incoming Secondaries								
Auto Carrier Route	2,103	7,560	\$37.992	0.503	0.008	1.774	0.899	0.189
Auto 3-Pass DPS	3,289	14,830	\$37.992	0.256	0.004	1.723	0.445	0.146
Auto 2-Pass DPS	15,606	9,401	\$37.992	0.404	0.006	1.742	0.710	1.108
Man Inc Sec Final At Plant	324	575	\$37.992	6.612	0.099	1.281	8.570	0.278
Man Inc Sec Final At DU	115	928	\$37.992	4.094	0.062	1.281	5.305	0.061
Box Section Sort, DPS	771	2,015	\$37.992	1.886	0.028	1.281	2.444	0.188
Box Section Sort, Other	119	1,007	\$37.992	3.771	0.057	1.281	4.888	0.058
Model Cost 1/								2.029

Sources

LR-L 110 "Auto 5-digit Cost"

FIRSTCLASSAUTOMATION CARRIER ROUTE PRESORTED LETTERS COST SHEET

Total Pieces 10.m

	TPH	Pieces Per Hour	Wage Rate	Direct Cents Per Piece	Premium Pay Adjust	Piggyback Factor	Total Cents Per Piece	Weighted Cents Per Piece
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	0	6,856	\$37.992	0.554	0.008	2.070	1.156	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	9,370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0.000
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0.000
Manual	0	650	\$37.992	5.845	0.088	1.281	7.576	0.000
Incoming RBCS								
ISS	0	4,441	\$37.882	0.856	0.013	2.070	1.784	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Incoming MMP								
Automation AADC	0	6,879	\$37.992	0.552	0.008	1.757	0.979	0.000
Manual ADC	0	563	\$37.992	6.520	0.098	1.281	8.450	0.000
Incoming SCF/Primary								
Automation	0	7,085	\$37.992	0.536	0.008	1.771	0.958	0.000
Manual	0	627	137.992	6.064	0.091	1.281	7.859	0.000
Incoming Secondaries								
Auto Carrier Route	0	7,560	\$37.992	0.503	0.008	1.774	0.899	0.000
Auto 3-Pass DPS	16,279	14,830	537.992	0.256	0.004	1.723	0.445	0.725
Auto 2-Pass DPS	0	9,401	\$37.992	0.404	0.006	1.742	0.710	0.000
Man Inc Sec Final At Plant	211	575	\$37.992	6.612	0.099	1.281	6.570	0.181
Man Inc Sec Final At DU	75	928	\$37.992	4.094	0.062	1.281	5.305	0.040
Box Section Sort. DPS	468	2,015	\$37.992	1.886	0.028	1.281	2.444	0.114
Box Section Sort. Other	26	1,007	\$37.992	3.771	0.057	1.281	4.888	0.012

Model Cost 1/	1.073
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Sources

LRL-48 "Auto Car RT Cost"

FIRST-CLASS MACHINABLE MAADC / AAM: PRESORTED LETTERS COST SHEET

Total Pieces 10.m

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	10,073	6,856	\$37.992	0.554	0.008	2.070	1.156	1.164
RCR	1,331	--	--	--	--	--	0.094	0.013
REC	288	787	\$21.974	2.792	0.042	1.369	3.864	0.111
OSS	1,350	9,370	\$37.992	0.405	0.006	1.756	0.718	0.097
LMLM	27	3,111	U7.992	1.221	0.018	2.911	3.573	0.010
Outgoing Primary								
Automation	307	8,461	\$37.992	0.449	0.007	1.744	0.790	0.024
Manual	92	408	\$37.992	9.323	0.140	1.281	12.083	0.111
Outgoing Secondary								
Automation	2,798	9,157	\$37.992	0.415	0.006	1.754	0.734	0.205
Manual	121	650	\$37.992	5.845	0.088	1.281	7.576	0.092
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.389	3.864	0.000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Incoming MMP								
Automation AADC	1,814	6,879	\$37.992	0.552	0.008	1.757	0.979	0.177
Manual AM:	199	583	\$37.992	6.520	0.098	1.281	8.450	0.168
Incoming SCF/Primary								
Automation	5,506	7,085	U7.992	0.536	0.008	1.771	0.958	0.527
Manual	238	627	\$37.992	6.064	0.091	1.281	7.859	0.186
Incoming Secondaries								
Auto Carrier Route	2,007	7,560	\$37.992	0.503	0.008	1.774	0.899	0.180
Auto 3-Pass DPS	3,140	14,830	\$37.992	0.256	0.004	1.723	0.445	0.140
Auto 2-Pass DPS	14,895	9,401	\$37.992	0.404	0.006	1.742	0.710	1.058
Man Inc Sec Final A/ Plant	646	575	\$37.992	6.612	0.099	1.281	8.570	0.553
Man Inc Sec Final At DU	229	928	\$37.992	4.094	0.062	1.281	5.305	0.122
Box Section Sort. DPS	738	2,015	\$37.992	1.886	0.028	1.281	2.444	0.180
Box Section Sort. Other	154	1,007	\$37.992	3.771	0.057	1.281	4.888	0.075

Model Cost 1/ 6.193

LR-L-110 "Mach MAADC-AADC Cost"

FIRST-CLASS MACHINABLE 3-DIGIT / 5-DIGIT PRESORTED LEITERS COST SHEET

Total Pieces 10,000

	TPH	Pieces Per Hour	Wage Rate	Direct Cents Per Piece	Premium Pay Adjust	Piggyback Factor	Total Cents Per Piece	Weighted cents Per Piece
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	0	6.856	\$37.992	0.554	0.008	2.070	1.156	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	9.370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8.461	\$37.992	0.449	0.007	1.744	0.790	0.000
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0.000
Manual	0	650	\$37.992	5.845	0.088	1.281	7.576	0.000
Incoming RBCS								
ISS	10,073	4,441	\$37.992	0.856	0.013	2.070	1.784	1.797
RCR	1,331	--	--	--	--	--	0.094	0.013
REC	288	787	\$21.974	2.792	0.042	1.369	3.864	0.111
OSS	1,350	8,510	\$37.992	0.446	0.007	1.807	0.813	0.110
LMLM	27	3,111	\$37.992	1.221	0.018	2.911	3.573	0.010
Incoming MMP								
Automation AADC	224	6,679	\$37.992	0.552	0.008	1.757	0.979	0.022
Manual ADC	87	583	\$37.992	6.520	0.098	1.281	8.450	0.074
Incoming SCF/Primary								
Automation	3,114	7,085	\$37.992	0.536	0.008	1.771	0.958	0.298
Manual	111	627	\$37.992	6.064	0.091	1.281	7.859	0.088
Incoming Secondaries								
Auto Carrier Route	2,062	7,560	\$37.992	0.503	0.008	1.774	0.899	0.185
Auto 3-Pass DPS	3,226	14,830	\$37.992	0.256	0.004	1.723	0.445	0.144
Auto 2-Pass DPS	15,304	9,401	\$37.992	0.404	0.006	1.742	0.710	1.087
Man Inc Sec Final At Plant	461	575	\$37.992	8.612	0.099	1.281	8.570	0.395
Man Inc Sec Final At DU	163	928	\$37.992	4.094	0.062	1.281	5.305	0.087
Box Section Sort. DPS	756	2,015	\$37.992	1.886	0.028	1.281	2.444	0.185
Box Section Sort. Other	134	1,007	\$37.992	3.771	0.057	1.281	4.888	0.066

Model Cost 1/	4.870
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FIRST-CLASS NONMACHINABLE MADC PRESORTED LETTERS COST SHEET

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cent. Per Piece [8]
Entry Activities								
Bundle Sorting							1.256	1.256
Outgoing RBCS								
ISS	0	6,856	\$37.992	0.554	0.008	2.070	1.156	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	9,370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0.000
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0.000
Manual	10.0m	650	\$37.992	5.845	0.088	1.281	7.576	7.576
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Incoming MMP								
Automation AADC	0	6,879	\$37.992	0.552	0.008	1.757	0.979	0.000
Manual ADC	9,494	583	\$37.992	6.520	0.098	1.281	8.450	8.022
Incoming SCF/Primary								
Automation	0	7,085	\$37.992	0.536	0.008	1.771	0.958	0.000
Manual	1.092	627	\$37.992	6.064	0.091	1.281	7.859	0.858
Incoming Secondaries								
Auto Carrier Route	0	7,560	\$37.992	0.503	0.008	1.774	0.899	0.000
Auto 3-Pass DPS	0	14,830	\$37.992	0.256	0.004	1.723	0.445	0.000
Auto 2-Pass DPS	0	9,401	\$37.992	0.404	0.006	1.742	0.710	0.000
Man Inc Sec Final At Plant	7.381	575	\$37.992	6.612	0.099	1.281	8.570	6.325
Man Inc Sec Final At DU	2,619	928	\$37.992	4.094	0.062	1.281	5.305	1.389
Box Section Sort, DPS	0	2,015	\$37.992	1.886	0.028	1.281	2.444	0.000
Box Section Sort, Other	890	1,007	\$37.992	3.771	0.057	1.281	4.888	0.435
Model Cost 1/							25.882	

Sources

LR-L-110 FCM.xls "Nmach MADC Cost"

FIRST-CLASS NONMACHINABLE ADC PRESORTED LETTERS COST SHEET

Total Pieces 10,000

	TPH	Pieces Per Hour	Wage Rate	Direct Cents Per Piece	Premium Pay Adjust	Piggyback Factor	Total Cents Per Piece	Weighted Cents Per Piece
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Entrv Activities								
Bundle Sorting							3.111	3111
Outgoing RBCS								
ISS	0	6,656	\$37.992	0.554	0.008	2.070	1.156	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	9,370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0.000
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0.000
Manual	0	650	\$37.992	5.845	0.088	1.281	7.576	0.000
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.902	1.221	0.018	2.911	3.573	0.000
Incoming MMP								
Automation AADC	0	6,679	\$37.992	0.552	0.008	1.757	0.979	0.000
Manual ADC	10,000	583	\$37.992	6.520	0.098	1.281	8.450	8.450
Incoming SCF/Primary								
Automation	0	7,085	\$37.992	0.536	0.008	1.771	0.958	0.000
Manual	618	627	\$37.992	6.064	0.091	1.281	7.659	0.486
Incoming Secondaries								
Auto Carrier Route	0	7,560	\$37.992	0.503	0.008	1.774	0.899	0.000
Auto 3-Pass DPS	0	14,830	\$37.992	0.256	0.004	1.723	0.445	0.000
Auto 2-Pass DPS	0	9,401	\$37.992	0.404	0.006	1.742	0.710	0.000
Man Inc Sec Final At Plant	7,381	575	\$37.992	6.612	0.099	1.281	8.570	6.325
Man Inc Sec Final At DU	2,619	928	\$37.992	4.094	0.062	1.281	5.305	1.389
Box Section Sort. DPS	0	2,015	\$37.992	1.886	0.028	1.281	2.444	0.000
Box Section Soft, Other	890	1,007	\$37.992	3.771	0.057	1.281	4.888	0.435

Model Cost 1/ 20.196

FIRST-CLASS NONMACHINABLE 3-DIGIT PRESORTED LETTERS COST SHEET

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [4]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting							1.292	1292
Outgoing RBCS								
ISS	0	6,856	\$37.992	0.554	0.008	2.070	1.156	0 W 0
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	9,370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0 W 0
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0.000
Manual	0	650	\$37.992	5.845	0.088	1.281	7.576	0 W 0
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Incoming MMP								
Automation AADC	0	6,879	\$37.992	0.552	0.008	1.757	0.979	0.000
Manual ADC	0	583	\$37.992	6.520	0.098	1.281	8.450	0.000
Incoming SCF/Primary								
Automation	0	7,085	\$37.992	0.536	0.008	1.771	0.958	0.000
Manual	10,000	627	\$37.992	6.064	0.091	1.281	7.859	7.859
Incoming Secondaries								
Auto Carrier Route	0	7,560	\$37.992	0.503	0.008	1.774	0.899	0 W 0
Auto 3-Pass DPS	0	14,830	\$37.992	0.256	0.004	1.723	0.445	0.000
Auto 2-Pass DPS	0	9,401	\$37.992	0.404	0.008	1.742	0.710	0.000
Man Inc Sec Final At Plant	7,381	575	\$37.992	6.612	0.099	1.281	8.570	6.325
Man Inc Sec Final At DU	2,619	928	\$37.992	4.094	0.062	1.281	5.305	1.389
Box Section Sort. LIPS	0	2,015	\$37.992	1.886	0.028	1.281	2.444	0 W 0
Box Section Sort. Other	890	1,007	\$37.992	3.771	0.057	1.281	4.888	0.435
Model Cost 11								17,300

FIRST-CLASS NONMACHINABLE 5-DIGIT PRESORTED LETTERS COST SHEET

Total Pieces

10.m

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle sorting							0.000	0.0000
outgoing RBCS								
ISS	0	6,856	\$37.992	0.554	0.008	2.070	1.156	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.369	3.864	0.000
OSS	0	9,370	\$37.992	0.405	0.006	1.756	0.718	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Outgoing Primary								
Automation	0	8,461	\$37.992	0.449	0.007	1.744	0.790	0.000
Manual	0	408	\$37.992	9.323	0.140	1.281	12.083	0.000
Outgoing Secondary								
Automation	0	9,157	\$37.992	0.415	0.006	1.754	0.734	0.000
Manual	0	650	\$37.992	5.845	0.088	1.281	7.576	0.000
Incoming RBCS								
ISS	0	4,441	\$37.992	0.856	0.013	2.070	1.784	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$21.974	2.792	0.042	1.389	3.864	0.000
OSS	0	8,510	\$37.992	0.446	0.007	1.807	0.813	0.000
LMLM	0	3,111	\$37.992	1.221	0.018	2.911	3.573	0.000
Incoming YMP								
Automation AADC	0	6,879	\$37.992	0.552	0.008	1.757	0.979	0.000
Manual ADC	0	583	\$37.992	6.520	0.098	1.281	8.450	0.000
Incoming SCF/Primary								
Automation	0	7.m	\$37.992	0.536	0.008	1.771	0.958	0.000
Manual	0	627	\$37.992	6.064	0.091	1.281	7.859	0.000
Incoming Secondaries								
Auto Carrier Route	0	7,560	\$37.992	0.503	0.008	1.774	0.899	0.000
Auto 3-Pass DPS	0	14,834	\$37.992	0.256	0.004	1.723	0.445	0.000
Auto 2-Pass DPS	0	9,401	\$37.992	0.404	0.006	1.742	0.710	0.000
Man Inc Sec Final At Plant	7,381	575	\$37.992	6.612	0.099	1.281	8.570	6.325
Man Inc Sec Final At DU	2,619	928	\$37.992	4.094	0.062	1.281	5.305	1.389
Box Section Sort, DPS	0	2,015	\$37.992	1.886	0.028	1.281	2.444	0.000
Box Section Sort, Other	890	1,007	\$37.992	3.771	0.057	1.281	4.888	0.435
Model Cost 1/							8.150	

Sources

LR-L-110 FCM.xls "Nmach 5-digit Cost"

1 CHAIRMAN OMAS: Mr. Levy?

2 MR. LEVY: Thank you.

3 Ms. Kobe, you were handed just before the
4 start of the hearing two sets of documents that appear
5 to be your responses to **NAPM/APWU-T1-7** through 9. Is
6 that correct?

7 THE WITNESS: Yes, I was.

8 MR. LEVY: Have you reviewed those
9 documents?

10 THE WITNESS: Yes.

11 MR. LEVY: And are those in fact your
12 responses to Interrogatories 7 through 9?

13 THE WITNESS: They are.

14 MR. LEVY: And if you were asked the same
15 questions today would your answers be substantially
16 the same?

17 THE WITNESS: Yes.

18 MR. LEVY: With that, Mr. Chairman, I would
19 like to approach the bench and hand the reporter the
20 two sets.

21 CHAIRMAN OMAS: Without objection.

22 MR. LEVY: And ask that they be moved into
23 evidence and transcribed.

24 CHAIRMAN OMAS: Without objection. So
25 ordered.

1 (The documents referred to
2 were marked for
3 identification as Exhibit
4 Nos. NAPM/APWU-T1-7 through 9
5 and were received in
6 evidence.)

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RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF NAPM

NAPM/APWU-T1-7. Please refer to NAPM-TI-1, part c, which asked you to explain the circumstances under which you would endorse discounts that exceed or are smaller than avoided costs. You responded in part (emphasis added):

For a new discount and for any discount where the costs are difficult **to** determine, the Postal Service should err on the side of a smaller pass through because once a discount is in place it is very hard **to** reduce.

- a. Are any of the marginal discounts you propose for First-class Automation Letter Mail smaller than the current discounts?
- b. Please confirm that the current marginal discount for First-class 3 Digit Automation Mail is 0.9 cents. Please fully explain any failure to confirm without qualification.
- c. Please confirm that the Postal Service has proposed a marginal discount for First-class 3 Digit Automation Mail of 0.4 cents per piece. Please fully explain any failure **to** confirm without qualification.
- d. Do you contend that the Commission has failed to reduce existing presort discounts when the record has warranted? If so, please identify each instance during the past ten years.

Response:

- a. Yes, my proposed rate for 3-digit automated presort letters is 0.4 smaller than the proposed rate for auto AADC letters. The current rate for 3-digit automated letters is 0.9 lower than the rate for auto AADC letters.
- b. Confirmed.
- c. Confirmed that the Postal Service has made that proposal.
- d. The Commission makes its decisions based on the record and its consideration of the various policies of the PRA. There have been instances where the Postal Service has made proposals *to* reduce

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF NAPM

discounts and the Commission has not agreed with those proposals.

However, my comment was a more general one about the reluctance to take away/ or have something taken away once it has been given.

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KATHRYN KOBE TO INTERROGATORIES OF NAPM

NAPM/APWU-T1-8. Please refer to **NAPM/APWU-T1-6**, part b, where you were asked to confirm that if Single-Piece First-class letter rates were deaveraged across the set of characteristics defining "clean" mail and "dirty" mail and rates were set to comport with the Efficient Component Pricing Rule, the per-unit contribution for "clean" mail and "dirty" mail would be the same. You responded in part:

The Efficient Component Pricing Rule is used for determining worksharing related costs avoided. The Postal Service does not produce clean or dirty mail, it simply processes what is presented to it. Consequently, one can not replace a Postal Service activity related to producing a clean mail piece with a similar mailer activity.

- a. Please confirm that the Postal Service provides free forwarding and returns of First-class Mail. Please explain fully any failure to confirm without qualification.
- b. Please confirm that the Postal Service incurs costs for forwarding and returning First-class Mail. Please explain fully any failure to confirm without qualification.
- c. Please confirm that First-class Presort mailers must perform certain addressing hygiene practices to ~~qualify~~ for discounts. Please explain fully any failure to confirm without qualification.
- d. Please confirm that the Postal Service would likely incur additional costs for forwards and returns if mailers were not required to perform these activities. Please explain fully any failure to confirm without qualification.
- e. Please confirm that First-class Presort mailers could undertake additional activities, beyond those currently undertaken, that would reduce the need for some forwards and returns. Please explain fully any failure to confirm without qualification.

Response:

- a. Confirmed.
- b. Confirmed

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AF WITNESS
KATHRYN KOBE TO INTERROGATORIES OF 1/

- c. Confirmed. Although they are not the only First Class mailers that are performing address hygiene activities.
- d. ifi
- e. ly so

RESPONSES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS
KATHRYN KOBE TO INTERROGATORIES OF NAPM

NAPMIAPWU-TI-9. Please refer to **NAPM/APWU-T1-6**, parts a and d, which asked you to identify the complete set of characteristics that distinguishes “clean” mail from “ditty” mail, as you use the terms, and asked you to confirm that deaveraging across this set of characteristics would reduce total combined mailing costs in the society as compared to the current pricing approach. **You** responded to part d as follows:

Not confirmed. Deaveraging across characteristics, depending on the extent to which it was taken, could result in a multitude of rates about which Single Piece users would have to make decisions. Transactions costs are added to the extent Single Piece users spend time trying to figure out which rate would apply and tracking down the “right” postage for their piece of mail. Postal Service revenue verification and protection costs and difficulties would likely increase as would the costs of customer education and service to assist Single Piece mailers in determining the correct postage. To the extent some people would expend more than postage savings to convert to cleaner characteristics, there would be additional costs. It would reduce the postage for mailers who are already mailing clean mail but whether it would overcome their transaction costs is not clear. The significance of transaction costs for Single Piece users, especially households, can be seen in the appeal of the Forever stamp. People do not want to expend the time and energy to deal with procuring and making decisions about “makeup” stamps. The Postal Service also expends resources on making those transactions.

- a. **Do** First-class Single-Piece mailers under current rates have to spend time figuring out how much the piece weighs?
- b. Would mailers of First-Class Single-Piece letters under your proposed rates have to spend time figuring out how much the piece weighs?
- c. Would mailers of First-class Single-Piece mail under your proposed rates have to spend time figuring out whether the piece is a letter, a flat, or a parcel?
- d. Please confirm that deregulation and increased competition have

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increased in recent years the complexity of the prices offered to consumers for services such as telephony, banking, and lending. Please explain fully any failure to confirm.

- e. Would consumer welfare be increased if the prices for other commonly-used consumer services such as retail telephony and consumer banking and lending were reaveraged and simplified? If so, please explain fully, and cite all data, studies, and analyses on which you rely.
- f. Would consumer welfare be reduced if the Postal Service allowed presort bureaus and other third-party consolidators to "assist Single Piece mailers in determining the correct postage" in exchange for a share of the cost savings from deaveraging (e.g., by allowing presort bureaus to obtain value added rebates ("VARs") for mail bearing indicia of payment of full Single-Piece postage)? If your answer is anything but an unqualified negative, please explain fully, and cite all data, studies and analyses on which you rely.

Response:

- a. Only in some cases.
- b. Probably to the same extent they do now
- c. In certain cases they would
- d. In some cases it has but not in all cases. There used to be schedules of long distance rates and now a large percentage of the population gets their long distance "free" on their cell phones, for example.
- e. There certainly are many cases in which banks and telephony companies sell bundled services to consumers. The individual price of each of the services becomes very difficult to compare or evaluate.

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KATHRYN KOBE TO INTERROGATORIES OF NAPM

Some consumers seem to like that lessening of complexity and others do not.

- f. I have not studied the issues surrounding value added rebates for mail with Single Piece indicia but, in concept, it would not seem to reduce consumer welfare.

1 CHAIRMAN OMAS Is there any other party who
2 has anything at this point of Ms. Kobe?

3 (No response.)

4 CHAIRMAN OMAS: There being none, this
5 brings us to oral cross-examination.

6 Four participants have requested oral cross-
7 examination: The American Bankers Association, Major
8 Mailers Association, the National Association of
9 Presort Mailers, and the United States Postal Service.

10 Mr. Brinkmann, you may begin.

11 MR. BRINKMAN: Thank you very much, Mr.
12 Chairman.

13 CROSS-EXAMINATION

14 BY MR. BRINKMAN:

15 Q Good morning, Ms. Kobe. It's good to see
16 you.

17 A Good morning.

18 Q Could you turn to page 9 of your testimony,
19 please?

20 A I'm there.

21 Q If we look at the lower right-hand corner of
22 the chart that's in the middle of that page and the
23 column next to it, AADC Three Digit and Five Digit, we
24 see, and correct me if I'm wrong, that you've proposed
25 rate increases for both business first class mail

1 that's significantly higher than those proposed by the
2 Postal Service. Is that correct?

3 A That's correct.

4 Q Would you be concerned if 10 percent of
5 first class mail left the system precipitously?

6 A I guess I would have some concerns about
7 that.

8 Q Are you familiar with the GAO report
9 released in July of 2003 entitled United States Postal
10 Service Primer on Worksharing?

11 A I have read it at the time. I haven't read
12 it recently.

13 Q Are you familiar with the statement in the
14 report -- and you can check it later; it's at page 123
15 -- that says, "Over the last three decades, workshared
16 mail has accounted for all the growth in domestic mail
17 volume."

18 A I believe that that is what that report
19 said, yes.

20 Q Are you familiar with the phenomena that
21 every time a worksharing discount was introduced
22 through the Postal Rate Commission's process mail
23 volume grew often explosively in response?

24 A I think there's a correlation between those
25 two.

1 Q Okay. Are you familiar with the statement
2 in the same GAO report that said, "According to both
3 the Postal Service..." --

4 CHAIRMAN OMAS: Ms. Kobe, would you bring
5 the mic closer to you, please?

6 THE WITNESS: Yes, I will. Is that better?

7 CHAIRMAN OMAS: Thank you.

8 THE WITNESS: Sure.

9 CHAIRMAN OMAS: I'm sorry, Mr. Brinkmann.

10 MR. BRINKMAN: Is this okay? Okay. Sorry
11 about that.

12 BY MR. BRINKMAN:

13 Q Are you familiar with the statement in the
14 GAO report that says that, "According to both the
15 Postal Service and the Postal Rate Commission, the
16 growth in worksharing mail volume over the years has
17 generated additional postage to help cover rising USPS
18 cost."

19 A I don't recall that statement. I haven't
20 read that report recently.

21 Q Okay. Are you familiar with the results of
22 the Discover NSA which resulted in a sharp increase in
23 Discover's first class mail volume in response to the
24 discounts created by that NSA?

25 A I have not looked at any of the reports on

1 the Discover NSA. I am familiar that there was a
2 Discover NSA, but not what any results have been from
3 that.

4 Q So just to clarify, you're not familiar that
5 the year after that a significant amount of increased
6 first class mail volume was mailed by Discover?

7 A I haven't looked at any of the follow-up
8 reports since that was approved.

9 Q Okay. That's fair. Do you know what
10 proportion of first class mail is advertising mail?

11 A I do not know that.

12 Q Would you take it subject to check according
13 to the 2005 Household Diaries study that 10 percent of
14 first class mail is advertising mail? Let's clarify
15 that. Actually 10 percent is advertising only
16 advertising mail.

17 A I would find that to be reasonable.

18 Q Okay. Are you familiar with the unit
19 contribution figures that the Postal Service Witness
20 O'Hara provided for the record in this answer to
21 NAA/USPS-T31-1?

22 I'm specifically talking about the unit
23 contribution for first class presort letters and the
24 unit contribution for standard regular.

25 A I looked at them at one time, but I couldn't

1 tell you what they are.

2 Q Would you accept subject to check that the
3 unit contribution of first class presorted letters is
4 23.02 cents and that the unit contribution of standard
5 mail regular is 10.01 cents, a difference of about 13
6 cents per piece?

7 A That sounds about right.

8 Q Okay. Isn't it true then that the Postal
9 Service loses 13 cents of contribution on average for
10 every piece of advertising mail that shifts from first
11 class to standard mail?

12 A I believe that's correct, yes.

13 Q Do you know what response rate a standard
14 mail advertising piece elicits? Actually this is a
15 two-part question. Sorry. Do you know what response
16 a first class advertising mail piece elicits?

17 A I don't know those off the top of my head,
18 no.

19 Q Fair enough. Would you accept again subject
20 to check that according to the 2005 Household Diaries
21 study a first class advertising piece elicits a
22 response rate of 8.6 percent and a standard mail piece
23 elicits a response rate of 10.1 percent?

24 A Could you describe what you mean by response
25 rate in that?

1 Q The percentage of pieces that generates a
2 response.

3 A Subject to check. I really have no basis to
4 say one way or another.

5 Q That's fine. Subject to check, and you can
6 check it out at page 42.

7 A Okay.

8 Q The point of that is that the standard mail
9 response rate is higher than the first class response
10 rate and not the other way around.

11 MR. ANDERSON: Pardon me. May I ask what
12 document you're referring to?

13 MR. BRINKMA": This is the 2005 Household
14 Diaries study.

15 MR. ANDERSON: Thank you.

16 MR. BRINKMA": Which is kind of the
17 official Bible, if you want, on mail usage that the
18 Postal Service puts out.

19 MR. ANDERSON: Thank you.

20 BY MR. BRINKMA":

21 Q Now, for purposes of this next question
22 please assume that first class delivery has
23 deteriorated to the point where it is barely better
24 than, marginally the same as or slightly worse than
25 standard mail delivery.

1 With that assumption in mind, will not
2 increasing first class bulk business mail rates more
3 than the Postal Service has proposed tend to have a
4 negative effect on that 10 percent of first class mail
5 that is advertising mail?

6 A Do you mean in comparison to what the Postal
7 Service is already proposing?

8 Q The higher the rate increase, the more
9 negative the effect that that's going to have on first
10 class advertising mail volumes.

11 A There generally is a negative effect in the
12 short term from raising rates. Compared to what the
13 Postal Service had put forward. I would think that
14 would be true.

15 Q Again keeping that assumption in mind, you
16 know, that first class delivery is a little bit
17 better, a little bit worse or about the same as
18 standard mail, do you think increasing first class
19 bulk business mail rates more than the Postal Service
20 proposed will have a negative or positive effect on
21 advertising mail growth in first class?

22 A I would think it would have a somewhat
23 negative effect compared to what the Postal Service
24 had anticipated.

25 MR. BRINKMA": Thank you. I have no more

1 questions, Mr. Chairman.

2 CHAIRMAN OMAS: Thank you, Mr. Brinkmann.

3 Major Mailers Association, Mr. Hall?

4 MR. HALL: Mr. Chairman, I notice Mr. Levy
5 is already set up there, and if he'd like to go ahead
6 that would be fine by me. It's going to take me a few
7 minutes to set up and pass around some exhibits.

8 CHAIRMAN OMAS: All right. That's fine.
9 Thank you, Mr. Hall, for your consideration.

10 Mr. Levy, would you proceed?

11 MR. LEVY: Thank you, Mr. Chairman and Mr.
12 Hall.

13 CROSS-EXAMINATION

14 BY MR. LEVY:

15 Q Good morning again, Ms. Kobe.

16 A Good morning.

17 Q Ms. Kobe, the gist of your testimony --

18 CHAIRMAN OMAS: Mr. Levy, your mic, please.

19 MR. LEVY: Please tell me if I'm too close
20 to it.

21 BY MR. LEVY:

22 Q The gist of your testimony is that presort
23 discounts should be based on a rate benchmark of bulk
24 metered mail?

25 A Yes, that's true.

1 Q And discounts from that benchmark should be
2 set equal to 100 percent of avoided costs?

3 A Yes.

4 Q Leaving aside issues of tempering from rate
5 shock, right?

6 A That's correct.

7 Q And setting pass throughs equal to 100
8 percent of avoided cost is good because it causes
9 similar letters to bear the same amount of the
10 institutional costs of the Postal network?

11 A Yes.

12 Q And in your view it is an important goal to
13 have two identical pieces of mail, one workshared and
14 one not workshared, make the same contribution toward
15 institutional costs?

16 A I believe that's been the goal of
17 worksharing discounts as presented by the Commission
18 and the Postal Service in the Fast.

19 Q **And** it's a goal that you support?

20 A Yes.

21 Q Now, worksharing is something that a mailer
22 does to prepare mail that makes it less costly for the
23 Postal Service to process and deliver the mail?

24 A In particular it tends to be presorting and
25 barcoding the mail so that certain mail processing

1 steps can be skipped.

2 Q You added the verb "tends". It can be
3 broader than just presorting, can't it?

4 A There are some drop ship discounts that I
5 believe are considered worksharing in standard mail,
6 but not in first class mail.

7 Q But as a matter of economic principle
8 anything that a mailer could do that could save the
9 Postal Service cost could be worksharing?

10 A Not anything that they can do because it
11 depends on whether those are things that the mailer
12 would do anyway.

13 Certainly there are a lot of things that
14 workshare mailers do that other mailers do as well.
15 It doesn't make sense for the Postal Service to be
16 paying mailers to do things they would do anyway.

17 Q If the volume of that activity by the mailer
18 is affected by the prices offered by the Postal
19 Service then it becomes worksharing?

20 A It becomes worksharing if it really has to
21 do with what the discount was set up for, and the
22 discount was set up to promote the presortation and
23 the prebarcoding of the mail.

24 Q If the Commission set up discounts to
25 encourage other mailer activities and the mailers

1 responded to those discounts, would those activities
2 then be worksharing?

3 A Probably. I would assume that the
4 Commission would make that determination.

5 Q But as a matter of definition in your mind,
6 that would be worksharing?

7 A Well, **I'd** have to look at whatever you're
8 proposing there.

9 Q Ms. Kobe, in response to one of the
10 discovery requests you produced a copy of your
11 testimony before the Presidential Commission on the
12 Postal Service.

13 A I did.

14 Q Do you have a copy of that before you?

15 A I'm not sure I do because it wasn't
16 designated.

17 MR. LEVY: If I may approach the witness?

18 CHAIRMAN OMAS: Without objection.

19 THE WITNESS: I do have a copy of it. It
20 was attached to an interrogatory that was not
21 designated.

22 MR. LEVY: Thank you.

23 BY MR. LEVY:

24 Q Ms. Kobe, could you turn to page 5? Let's
25 do some identification first. The document we are

1 talking about is your testimony dated February 12,
2 2003, before the President's Commission on the United
3 States Postal Service?

4 A That's correct.

5 Q Do you have page 5 of that document?

6 A I do.

7 Q Do you see Footnote 1 on that page?

8 A Yes.

9 Q I'm going to read into the record the last
10 sentence from that footnote. "The concept behind
11 worksharing discounts is that mailers are provided a
12 monetary incentive to provide mail in a manner that
13 makes it less costly for the Postal Service to process
14 and deliver their mail."

15 Did I read that correctly?

16 A You did.

17 Q And that doesn't have a restriction for kind
18 of activity?

19 A This was for a nontechnical audience, so I
20 think I simplified more than one thing that was said
21 in here. Yes.

22 Q Now, one of the things that can affect the
23 cost of processing first class mail is its shape,
24 right?

25 A That's correct.

1 Q And mailers could reduce the Postal
2 Service's cost by reformatting flats as letters.
3 Isn't that right?

4 A They could, I suppose.

5 Q For example, an advertising brochure would
6 be made bigger or smaller depending on the size of the
7 envelope one were trying to fit it into. Isn't that
8 right?

9 A Yes.

10 Q And reformatting a flat-shaped mail piece as
11 a letter-shaped mail piece of the same weight saves
12 the Postal Service money, doesn't it?

13 A It should because letter-shaped mail tends
14 to be cheaper to process than flat-shaped mail.

15 Q **And** the Postal Service is proposing to
16 recognize shape more in this case, isn't it?

17 A Yes, it is.

18 Q And that's on the theory that if you put
19 shaped-based rate elements into the rate structure
20 mailers will change their behavior?

21 A I don't know whether it's the theory that it
22 can cause mailers to change their behavior or whether
23 it's just recognizing that there is a differential in
24 cost that has not been recognized in the previous rate
25 structure.

1 Q Well, if it were the latter case it would be
2 giving the mailers who enter letters windfalls in your
3 view, wouldn't it?

4 A Well, we're talking about something that may
5 not clearly be covering all of its variable costs, so
6 it's a question as to whether we're talking about the
7 contribution to overhead or whether something is
8 really covering all of its costs or not.

9 Q But in your view, giving a mailer a lower
10 rate for doing something that the mailer would do
11 anyway is amounting to giving the mailer a windfall,
12 isn't it?

13 A Yes, to a certain extent I agree with that

14 Q Do you have an opinion as to whether the
15 shape-based rates proposed by the Postal Service in
16 this case will have no effect on mailer behavior?

17 A I would imagine it would have some impact on
18 mailer behavior, but I haven't studied that.

19 Q Thank you. Now, the Postal Service is not
20 proposing a 100 percent pass through of shape-related
21 costs, is it?

22 A Not that I'm aware of.

23 Q And you're not proposing a 100 percent pass
24 through of shape-related costs, are you?

25 A NO, I'm not.

1 Q So under your proposed rate design, first
2 class flats will not be making the same contribution
3 to institutional costs as otherwise identical letters,
4 will they be?

5 A No.

6 Q Let's talk about another thing that mailers
7 can do, a destination entry. That can save the Postal
8 Service money?

9 A In standard mail that is allowed, and I
10 understand a reason that that's allowed is that the
11 Postal Service perceives that as saving it money.

12 Q If it were allowed in first class mail could
13 it save the Postal Service money?

14 A I haven't studied that.

15 Q And you are not proposing a destination
16 entry discount for first class mail, are you?

17 A No, I'm not.

18 Q Or to zone the first class rate structure,
19 are you?

20 A NO.

21 Q Now, if it turned out that for first class
22 mail the costs are related to distance then under your
23 proposal, like the Postal Service's, first class
24 letters that the Postal Service carried over long
25 distances would not be making the same contribution to

1 institutional costs as otherwise identical letters
2 that are entered closer to their destination, correct?

3 A Both letters, if they're going the same
4 distance, would both make the same contribution to
5 overhead costs because the cost of processing them and
6 moving them that distance would be the same,

7 If we're talking about two identical letters
8 that are going a far distance, then presumably their
9 cost is the same, and they are still making the same
10 contribution to overhead.

11 Q I'm sorry. Maybe I misspoke in my question.
12 My question was comparing two letters that are
13 identical in every respect, except one is entered
14 closer to the destination than the other.

15 A Well, then they're not going over the same
16 distance.

17 Q That's correct.

18 A So they're not identical in that case.

19 Q But in every other respect they're
20 identical. Do you understand the assumption?

21 A I think I understand the assumption, but
22 they're not identical letters.

23 Q I understand you may disagree over the
24 semantics of whether they're identical, but you
25 understand the assumptions of the hypothetical?

1 A I believe I understand.

2 Q And under those assumptions the mailer that
3 gets a longer haul would make a smaller contribution
4 to Postal Service institutional costs?

5 A They would because, I mean, if you're
6 comparing nonidentical letters, one of which is
7 traveling a longer geographic distance, that's
8 probably true.

9 Q Now, another thing that mailers can do that
10 can affect the Postal Service's cost is the nature of
11 the address placed on the mail piece. Isn't that
12 correct? That is, handwritten versus --

13 A It could impact cost, I suppose.

14 Q Well, a letter that has a computer generated
15 12-point Arial font would cost the Postal Service less
16 than a piece that is handwritten and has to be remote
17 barcoded by a manual operator.

18 A Yes, there would be a cost difference there.

19 Q Now, to qualify for presort discounts, mail
20 must have machineable addresses, right?

21 A My understanding is they must have
22 machineable addresses. I'm not certain they have to
23 be separate.

24 Q Single piece mail does not need a
25 machineable address, does it?

1 A No.

2 Q And not all single piece mail has a
3 machineable address?

4 A Not every piece, no.

5 Q And you're not proposing a discount for
6 putting a machineable address on a single piece
7 letter?

8 A No.

9 Q So under your rate design, first class
10 letters with handwritten addresses are unlikely to be
11 making the same contribution to the Postal Service
12 institutional costs as otherwise identical letters
13 with typed or printed addresses? Isn't that right?

14 A That's correct. That's part of the
15 averaging of the first class rate.

16 Q Now, another way in which mailers can save
17 the Postal Service money by additional activity is by
18 purchasing stamps through a channel other than a
19 retail counter. Isn't that right?

20 A That's probably true.

21 Q And again, your proposed rate design doesn't
22 recognize those cost differences?

23 A No.

24 Q And so as a result it could result in
25 differences in institutional cost contributions for

1 mail that varied only in that attribute?

2 A That's a possibility.

3 Q The same thing for collection costs. You
4 are not proposing to offer different rates for mail
5 which is entered at a Postal Service building compared
6 to mail that is entered in a street box, correct?

7 A Across all mail, no.

8 Q I'm sorry? I didn't hear your answer.

9 A Across all mail, no.

10 Q For first class mail, no?

11 A For first class mail, no.

12 Q Let me change now to a somewhat different
13 subject. You've testified that bulk metered mail is
14 cleaner than most other pieces of single piece first
15 class mail.

16 A I think by definition, yes.

17 Q And it's cleaner in a number of different
18 respects?

19 A It's easier to process, and it's uniform in
20 size, and it's got typewritten addresses on it, and
21 it's been faced and trayed.

22 Q What percentage of single piece first class
23 mail is bulk metered mail?

24 A I don't know

25 Q Do you know whether it's more than 10

1 percent of first class single piece mail?

2 A I don't believe that the Postal Service has
3 statistics on how much of their single piece mail is
4 bulk metered mail.

5 Q Do you have any opinion as to whether it's
6 more than one percent?

7 A I've never seen any statistics on it, so I
8 don't have an opinion on that.

9 Q Do you know whether any of it exists at all?

10 A The Postal Service has stated in the past
11 that it exists.

12 Q Do you know whether it exists today?

13 A I haven't personally seen it, but I still
14 assume it exists.

15 Q Now, if the Commission were to equalize the
16 contribution of bulk metered mail and presort mail to
17 institutional costs, then the average piece of single
18 piece first class mail would make a lower contribution
19 to Postal Service institutional costs than the average
20 piece of presort mail. Isn't that correct?

21 A I believe that would be the result, yes.

22 Q I mean, it's almost total logically true,
23 isn't it?

24 A Yes.

25 Q In fact, the contribution from single piece

1 first class mail other than bulk metered mail -- I'm
2 sorry. I withdraw the question

3 Would you go to your answer to NAPM
4 Interrogatory 6, subpart (d)? If you could let me
5 know when you're there?

6 A Yes, I am.

7 Q Now, in that answer you discuss transaction
8 costs?

9 A Yes.

10 Q And you suggest that transaction costs might
11 prevent additional deaveraging of the rate structure
12 from producing lower combined casts?

13 A I would think it would make it more
14 complicated to make that assumption.

15 Q Does the greater complexity that you believe
16 likely mean that lower combined costs are unlikely to
17 result?

18 A I'm saying that I don't know whether lower
19 combined costs would result because you have a pretty
20 small incentive to be offered, and we don't have any
21 idea what the range of reaction of consumers would be
22 to that so we don't know whether they would spend more
23 time and energy trying to get that rate than that rate
24 would be worth to them or whether it would cause
25 anybody to actually change their behavior or whether

1 they would just say okay, I've got an already cheap
2 piece of mail. I'll mail it at the lower rate. You
3 don't know what the result would be.

4 Q Presumably a mailer would respond to
5 deaveraging if the savings from the rate differential
6 exceeded their transactional costs of getting the
7 discount, right?

8 A If they could gauge those reasonably, yes.

9 Q And mailers presumably would not undertake
10 the activity if the transaction costs perceived by
11 them exceeded the rate differentials, correct?

12 A You would think not, but it would be
13 dependent upon their ability to perceive what ail the
14 transaction costs would be.

15 Q Well, our economic system presumes in most
16 instances that a consumer is able to perceive what the
17 transaction costs will be, doesn't it?

18 A Well, there are a lot of circumstances under
19 which people do similar averaging. The sandwich line
20 is an example. I go to Subway and order a specific
21 type of sandwich. Then I get to add as many toppings
22 as I want to to it, and it costs me the same.

23 One could presume that you could charge
24 everybody separately for their toppings. It might
25 save them a tiny amount of money, but the amount of

1 time they spend standing in line would be greatly
2 increased and so is it really worth anybody's time or
3 energy to make those changes. We don't really know.

4 To some people it would be. To some people
5 it would not be, You don't know what the net result
6 of such a change would be because we're talking about
7 a very small amount of money.

8 Q Well, the sandwich shop hypothetical has an
9 additional element that I didn't raise, which was that
10 people spend a long time ordering complicated options
11 on their sandwiches and impose waiting time on the
12 people behind them in line, correct?

13 A Sometimes they do.

14 Q One way to find out whether the transaction
15 costs of additional deaveraging of first class rates
16 would be to propose such rates, implement such rates
17 and see whether consumers respond?

18 A You could do it that way.

19 Q I noticed on APWU's website last night that
20 members of APWU have more than one health insurance
21 option. Is that correct?

22 A I'm really not familiar with the APWU health
23 insurance options.

24 Q Does offering a multiplicity of health
25 insurance options increase consumers' transaction

1 costs?

2 A It probably does

3 Q Now, the Postal Service could reduce the
4 transaction costs of a greater deaveraging of first
5 class rates of single piece rates by offering value
6 added rebates to presort bureaus for mail bearing
7 single piece postage. Isn't that right?

8 A I haven't ever studied this to any great
9 extent. As I understand them, I do understand that
10 that would be the point of them, yes.

11 Q And you have no reason to believe that it
12 wouldn't have an intended effect if it were
13 implemented?

14 A It would depend on how it's implemented.

15 Q Let me go to another topic. Would you go to
16 your response to ABA-NAPM's Interrogatory 2(b)?

17 A I'm sorry. Was it 2?

18 Q 2(b).

19 A Okay. I'm there.

20 Q In that answer appears the following
21 sentence: "If the discounts are based solely on the
22 costs associated with the mail that will convert at
23 the merge in then the least expensive mail already
24 being workshared gets an extra discount for no
25 effort."

1 Did I read that correctly?

2 A You did.

3 Q And that's related to a discussion we had a
4 little earlier today?

5 A I guess we had a discussion on no effort or
6 some effort.

7 Q Right.

8 A Yes.

9 Q Now, the presort rate discounts that you
10 recommend in this case have the same attribute, don't
11 they, that mailers who would presort anyway will be
12 getting a discount?

13 A They will be getting a discount, but because
14 I have not passed through fully 100 percent of the
15 costs avoided they will actually be getting a larger
16 discount than they would if it was based totally on a
17 100 percent pass through. Yes.

18 Q I'm not sure I heard right. Did I hear you
19 say that because your pass throughs are less than 100
20 percent --

21 A Are more than 100 percent. I'm sorry. I
22 misspoke.

23 Q Your goal is to have discounts eventually be
24 equal to 100 percent?

25 A That would be the goal, yes.

1 Q And at that point the resulting discounts
2 would still have the attribute that mailers who are
3 willing to presort for less than the discount per
4 piece getting more money than needed to induce their
5 behavior?

6 A But we're talking about what their
7 contribution to overhead costs would be, and the
8 question is whether mailers --

9 Q I don't mind if you explain, but could you
10 answer my question first and then put in your
11 explanation?

12 A Can you ask the question again? I'm not
13 sure I'm understanding what exactly you're asking.

14 Q If we move to your ultimate goal of getting
15 to 100 percent pass through for first class presort
16 discounts then you would still have the phenomenon of
17 mailers who are willing to presort for less than the
18 amount of discount are getting more money than needed
19 to discount?

20 A Mailers who are more efficient than the
21 Postal Service, yes, would decide to take the
22 discount.

23 Q And some of them would be taking the
24 discount even though the discount was greater than
25 needed to induce the presorting?

1 A Some of them are probably at the more
2 efficient end of the spectrum, yes.

3 Q And economists have a term for that as
4 inframarginal customers, I-N-F-R-A?

5 A I haven't heard that term, but I wouldn't
6 doubt that.

7 Q That same phenomena is true of any
8 worksharing discount where the willingness of the
9 mailers to workshare increases as the size of the
10 discount increases. Isn't that right?

11 A It happens in any case where you have a lot
12 of averaging going on. You're not talking about
13 identical pieces all the time, so differentiating
14 between the reasons why you have somewhat different
15 underlying costs can be quite difficult and confusing.

16 Q But as long as the willingness of mailers to
17 supply a particular activity has an upward sloping
18 supply curve then setting the discount at the costs
19 avoided by the Postal Service is going to mean giving
20 some mailers a deeper discount than needed to induce
21 the worksharing. Isn't that right?

22 A Yes. It's going to have some mailers who
23 are the most efficient probably would still provide
24 worksharing even if the discount was slightly smaller.

25 Q Now let me shift gears a bit. The same

1 phenomenon is true in competitive unregulated markets
2 that firms or people who can supply an input at a
3 lower cost than the market bearing price will be
4 getting more than needed to induce the input, right?

5 A Yes.

6 Q And that's also true of labor?

7 A Yes.

8 Q Well, if some of APWU's members would be
9 willing to work at an hourly wage rate below the rate
10 set by collective bargaining, are those workers
11 considered to be getting a windfall?

12 A They're all working at the same rate.

13 MR. ANDERSON: I object. I think that
14 question has a political connotation that I object to.
15 I think it's beyond the scope of Ms. Kobe's testimony,
16 and I think it's gratuitous. I object.

17 MR. LEVY: The point is that the witness has
18 testified that the phenomenon of giving some mailers
19 deeper discounts than needed to induce the discounting
20 is undesirable.

21 The point of my questioning is that this is
22 a phenomena that occurs in many, many sectors of the
23 economy, and I think this question can be answered
24 simply.

25 MR. ANDERSON: It certainly can be answered

1 simply. It's just a gratuitous insult to postal
2 workers, and I object to it.

3 I do not intend to insult Mr. Levy's
4 clients, and I don't want him to insult my clients.
5 This is an economics testimony, and it can be
6 conducted without reference to my clients personally.

7 MR. LEVY: I don't think there has been any
8 insult.

9 MR. ANDERSON: There's a personal reference.
10 I object to it.

11 CHAIRMAN OMAS: Mr. Levy?

12 MR. LEVY: Mr. Chairman?

13 CHAIRMAN OMAS: Mr. Levy, would you rephrase
14 your question?

15 BY MR. LEVY:

16 Q Ms. Kobe, it is likely that some postal
17 workers would be willing to work for hourly rates --

18 MR. ANDERSON: Same objection. This is an
19 economics testimony. He has made this point twice by
20 reference to other examples. This example is
21 gratuitous and it's insulting, and I object to it.

22 MR. LEVY: I haven't even finished the
23 question. I'm asking a basic question of economics,
24 and I'm trying to show that it applies to other
25 markets.

1 We'll be done with this line of questioning
2 if I'm allowed to ask the question without --

3 MR. ANDERSON: Mr. Chairman, it's Up to YOU
4 how the tone of this proceeding is going to be set.
5 If personal references to my clients are going to be
6 permitted then I'll feel free to respond in kind.

7 MR. LEVY: May I finish my question?

8 CHAIRMAN OMAS: Try to rephrase it.

9 MR. LEVY: I'll try even to complete it.

10 BY MR. LEVY:

11 Q Ms. Kobe, isn't it likely that postal
12 workers have varying supply curves for their labor?

13 MR. ANDERSON: Mr. Chairman, Mr. Levy is
14 persisting in referencing postal workers. Completely
15 unnecessary.

16 If he wants to raise this question, how
17 about labor markets? How about in labor markets
18 generally?

19 CHAIRMAN OMAS: All right.

20 MR. ANDERSON: This is insulting, and it's
21 gratuitous.

22 CHAIRMAN OMAS: Mr. Anderson, just a moment
23 please.

24 Mr. Levy, phrase your question rather than
25 using postal workers, ask it in terms of a lawyer

1 instead of postal workers.

2 (Laughter.)

3 MR. ANDERSON: You're wonderful, Mr
4 Chairman.

5 BY MR. LEVY:

6 Q All right. There are some lawyers who work
7 for the government who have collective bargaining
8 agreements? State governments?

9 A It's possible. I don't know that.

10 Q Assume that there are such markets and that
11 in those markets the lawyers of given seniority have
12 the same hourly presumably luxurious lawyer-like
13 compensation. I don't know about the level, but I
14 want to focus on the uniformity part.

15 Do you think that lawyers have the same
16 marginal willingness to supply legal services
17 uniformly?

18 A Probably not, but I have no basis on making
19 that statement.

20 MR. LEVY: This is why I asked about the
21 labor units. I thought the witness might have more
22 knowledge of that.

23 CHAIRMAN OMAS: Just proceed, okay?

24 BY MR. LEVY:

25 Q Assuming that lawyers in fact have varying

1 supply curves for their labor, then giving the lawyers
2 a uniform salary is likely to produce a windfall for
3 the lawyers who would be willing to work for less?

4 A That's a possibility, but the question is
5 whether it would harm anybody else by doing that.

6 The rest of my response to the question that
7 was being framed here is whether the fact that it
8 reduced the overhead coverage by those people who had
9 the windfall, so to speak, would harm anyone else.

10 That was the point of the original response
11 to the question you referred to here in 2(b) was what
12 happens to the people who are not participating in
13 worksharing? Did that increase the costs that were
14 put upon those people?

15 Q So your concerns would be taken care of in
16 this respect if the Commission made sure that the
17 institutional cost coverage paid by other mailers was
18 not increased?

19 A If it was possible to not shift
20 institutional cost coverage from workshare mailers to
21 nonworkshare mailers then that would reduce my
22 concern. I just don't exactly see how that would work
23 given the example that was presented.

24 Q Do presort discounts on -- I'm sorry. I
25 withdraw the question.

1 MR. LEVY: That's all I have, Ms. Kobe.

2 Thank you.

3 THE WITNESS: Thank you.

4 CHAIRMAN OMAS: Thank you, Mr. Levy.

5 Mr. Hall, would you please like to set up?

6 MR. HALL: It will take a few minutes, if
7 the witness would like to have a break or anybody
8 else.

9 CHAIRMAN OMAS: Why don't we take a five
10 minute break?

11 (Whereupon, a short recess was taken.)

12 CHAIRMAN OMAS: Mr. Hall?

13 MR. HALL: Can you hear me?

14 CHAIRMAN OMAS: Yes.

15 CROSS-EXAMINATION

16 (The document referred to was
17 marked for identification as
18 Exhibit No. MMA-X-2.)

19 BY MR. HALL:

20 Q Good morning, Ms. Kohe. My name is Mike
21 Hall, and I represent --

22 CHAIRMAN OMAS: Excuse me, Mr. Hall. Would
23 you pull it a little closer, and is your green light
24 on?

25 MR. HALL: No.

1 CHAIRMAN OMAS: Now that's fine. Thank you.

2 MR. HALL: I usually speak too loud. I'll
3 try to do sotto voce.

4 BY MR. HALL:

5 Q I think I was saying that my name is Mike
6 Hall. I represent Major Mailers Association, and I'll
7 be asking you some questions primarily about your
8 responses to our interrogatories and some related
9 matters.

10 Let's see. Do you have before you a
11 document that is labeled Exhibit MMA-X-2?

12 A I do.

13 Q And this document has been provided to you
14 before today?

15 A If it matches the one that was sent to me
16 over the weekend, which it appears to do, it does
17 other than it's got a different exhibit number on it.
18 Yes.

19 Q Okay. Actually, before we get to this
20 document itself I'd like to have you turn to your
21 response to Interrogatory 8(b).

22 A B as in boy or D as in David?

23 Q B as in boy.

24 A Okay. I believe I have that one.

25 Q And the table there?

1 A Yes, there is a table here.

2 Q Okay. We asked you to confirm the numbers
3 in that table, and your response was that the Postal
4 Service did not provide an estimate of BMM letter
5 costs in LR-L-48. Is that right?

6 A That's correct.

7 Q Okay. Now, do you see below in the Sources
8 column the reference to a transcript set of pages?

9 A Are we talking about my table? Oh, I see.
10 We're talking about this table back here. Yes, I do
11 see that.

12 Q Okay. Do you recognize that as Witness Marc
13 Smith's confirmation of cost information that APWU
14 provided to him?

15 A Do I know that that's the correct transcript
16 citation for that? I'm not certain of that, although
17 I think perhaps I have the transcript citation in my
18 testimony someplace. I'll certainly take your word
19 for it.

20 MR. HALL: I'll just show it to counsel. I
21 only have the first page, but he can confirm that.
22 That response is 13 --

23 MR. ANDERSON: I'm sorry. APWU/USPS-T13-2.

24 MR. HALL: Right.

25 BY MR. HALL:

1 Q Now, that's also the reference that's on I
2 believe it's page 2 of your Library Reference 1, is it
3 not?

4 MR. ANDERSON: Pardon me. Excuse me, Mr.
5 Chairman. May I ask that I could provide this to the
6 witness because frankly I'm reading this, and I can't
7 confirm what counsel is asking.

8 CHAIRMAN OMAS: Without objection. Is that
9 all right with you, Mr. Hall?

10 MR. HALL: That's fine.

11 MR. ANDERSON: I'll take it to her.

12 THE WITNESS: Page 2 as the response to
13 Witness Smith's T13-2, if that: is your question.

14 MR. HALL: Yes.

15 THE WITNESS: And so the question is?

16 CHAIRMAN OMAS: Ms. Robe, if you would just
17 try to direct yourself? You sort of go up and down.

18 THE WITNESS: In and Out. Okay. I will try
19 to do better.

20 CHAIRMAN OMAS: Make an attempt. I'd
21 appreciate that. Thank you.

22 THE WITNESS: Certainly.

23 CHAIRMAN OMAS: It's not only for our own
24 conception. It's for the reporter as well, because
25 your voice goes through to her.

1 THE WITNESS: I certainly understand, sir.

2 CHAIRMAN OMAS: Thank you very much.

3 THE WITNESS: Transcript 4222. Okay. That
4 would appear to be the reference to 13-2, which I did
5 have in Library Reference 1.

6 BY MR. HALL:

7 Q Okay. But the number that appears there for
8 BMM for both USPS and APWU has been changed as a
9 result of the revisions that you filed on October 12,
10 I believe. Is that right?

11 A That's correct. The Postal Service pointed
12 out that I was using basically the wrong page of Mr.
13 Smith's response so that I wasn't using the numbers
14 that included the final adjustment so there was a very
15 small change in that number, I believe.

16 Q Okay. So now it should be 9.584 cents? Is
17 that correct?

18 A Let me just double check it. Yes, that
19 would be correct.

20 Q Now, the same thing would be true under
21 8(d)? Is that correct? Only there I have to confess
22 that we got the transcript citation wrong.

23 A But the question is whether the 9.559 has
24 been changed to the 9.582? Is that the question?

25 Q I think it's 9.584.

1 A Excuse me. Yes, the 9.584. The 9.559 would
2 be corrected to the new number, if that is your
3 question.

4 Q Yes.

5 A Yes, I would agree that that would be true.

6 Q Okay. Now let's go to Exhibit MMA-X-2 if we
7 could, please. As we were saying, this information
8 was furnished to you on Friday, I believe, or to your
9 counsel on Friday.

10 Have you had an opportunity to review the
11 numbers here and confirm that they are accurate?

12 A Yes, I have looked through these numbers.

13 Q Okay.

14 MS. MCKENZIE: Mr. Hall, excuse me. Mr.
15 Hall, would you have a copy for counsel?

16 MR. HALL: Yes, I do. Yes.

17 BY MR. HALL:

18 Q Okay. So you've had a chance to confirm
19 that the numbers are correct, and they actually come
20 from your library reference, don't they?

21 A I believe all of these numbers come from my
22 library reference.

23 Q Okay. And our subtraction is the same, is
24 correct?

25 A I'm not sure I actually checked the

1 subtraction. I did check that the numbers you were
2 using were correct. I don't recall that I checked the
3 subtraction.

4 MR. HALL: Okay. Well, let's just ask you
5 to accept that subject to check.

6 Mr. Chairman, I don't know if I've actually
7 had this formally identified, but it is Exhibit
8 **MMi-X-2** and bears the date October **24, 2006**.

9 I've handed two copies to the reporter and
10 would ask that it be transcribed in the record and
11 received into evidence.

12 CHAIRMAN OMAS: Without objection.

13 MR. ANDERSON: Mr. Chairman, I have no
14 objection to this exhibit, but I do wish to observe
15 that there may be a couple of minor subtraction
16 errors.

17 I know it was offered subject to check, and
18 I just wanted to --

19 CHAIRMAN OMAS: Fine. If you would lust
20 provide us with those corrections?

21 (The document referred to,
22 previocsly identified as
23 Exhibit No. **MMA-X-2**, was
24 received in evidence.)

25 //

Comparison of APWU Revised Unit Processing Costs

Response to MMA/APWU-T1-20(A)

First-class Letter Category	Total Worksharing-Related Mail Processing Unit Cost (Cents)
BMM	9.584
NAMMA	5.715
Difference	3.869

First-class Letter Category	Total Worksharing-Related Mail Processing Unit Cost (Cents)
Auto MAADC	5.820
Nonautomation	5.664
Difference	0.155

Responses to MMA/APWU-T1-20(A) and 21(A)

First-class Letter Category	Total Worksharing-Related Mail Processing Unit Cost (cents)
BMM	9.584
Nonautomation	5.664
Difference	3.920

Response to MMA/APWU-T1-29(A)

First-class Letter Category	Modeled Mail Processing Unit Cost (Cents)	Total Mail Processing Unit Cost (Cents)
Auto MAADC	4.616	6.320
NAMMA	4.505	6.224
Difference	0.112	0.105

1 BY MR. HALL:

2 Q Could you turn to your response to T1-4, and
3 I believe it's (d)? In any case, the question reads,
4 "On average, is a single piece clean letter rejected
5 from automation equipment more often, less often or as
6 often as a preapproved automation compatible
7 prebarcoded letter?"

8 Do you see that question?

9 A I remember the question, but what was the --
10 so it's 4 (d)?

11 Q T1-4.

12 A D as in David?

13 Q D.

14 A Yes, I see that question.

15 Q And your response is, "I have no data to
16 determine the answer to this."

17 A That is my answer.

18 Q Okay. By using the word "data" do you mean
19 numbers, or do you mean information, or do you mean
20 both?

21 A I don't think I have any numbers to
22 determine that.

23 Q Do you have any information which might give
24 you an idea of how to answer that question?

25 MR. ANDERSON: Pardon me. I think I'd like

1 to interpose an objection just because I think this is
2 beyond the scope of this witness' expertise. This is
3 a mail processing question.

4 I don't mind her being posited a
5 hypothetical with the answer to this assumed, but I
6 don't think it's fair to ask the witness because she's
7 already answered in her interrogatory that she doesn't
8 know the answer to this question, so I think we should
9 just posit it if we can and move on.

10 CHAIRMAN OMAS: Mr. Hall?

11 MR. ANDERSON: The underlying question is
12 okay.

13 MR. HALL: Well, I think what we've done so
14 far is establish that she has no numerical basis for
15 answering the question, I'm not exploring whether she
16 has any other information that would allow her to form
17 an opinion and respond to the question.

18 THE WITNESS: I don't think I have enough
19 information to answer this question. Because I have
20 some vague anecdotal information -- but some of it
21 goes one way, some of it goes another way -- I don't
22 think that I have anything that would give me a clear
23 yes or no ability to answer this question.

24 BY MR. HALL:

25 Q I'm handing you a copy of the Postal

1 Service's answers, specifically Witness Marc McCrery's
2 answer to **APWU/USPS-T42-18**.

3 A Yes, it's before me.

4 Q Okay. Was the question posed there prepared
5 by you or with your assistance?

6 A I don't recall offhand whether this was one
7 of my questions or not, but certainly I did help
8 produce the questions for Mr. McCrery so it's possible
9 that this was one of my questions. I just don't
10 remember.

11 Q Okay. Would you like to take a moment to
12 review it, review the answer there?

13 A Yes. I've reviewed the answer.

14 Q Okay. Doesn't that seem to indicate to you
15 that letters with Postal applied barcodes are rejected
16 more often than ones with mailer applied barcodes, at
17 least if they're dot matrix or laser applied?

18 A He's positing that based on his views about
19 these different types of printers. I don't recall
20 that Mr. McCrery offered any numerical examples of
21 those.

22 Q Well, that's the distinction --

23 A Right,

24 Q -- I was trying to draw for you. But you
25 recognize that Mr. McCrery is an operations expert for

1 the Postal Service?

2 A Yes.

3 Q Thank you.

4 A But, I mean, t is is not the ll answer to
5 your question though. Your question was did I have
6 any information that provided an answer to (d) one way
7 or the other.

8 This was one part of Mr. McCrery's answers
9 to our questions, but he also answered a question on
10 address hygiene and a couple of other questions which
11 one could take the other direction as far as which
12 would be rejected most often. Consequently, on net I
13 still can't know which ones will or will not be
14 rejected more often.

15 Q Okay. But if we're just talking about
16 prebarcoded letters versus Postal Service applied
17 barcodes?

18 A But it depends also on the ability of the
19 Postal Service to barcode the letter and if the
20 addresses are more commonly accurate then that might
21 give you a higher or a lower reject rate overall.

22 Q Okay. Let's see. I believe it's 4(e), your
23 answer to that question. We're asking you about
24 collection window service or mail preparation costs,
25 and you say that there might be some mail collection

1 costs if there is a plant load agreement. Do you see
2 that portion?

3 A Yes.

4 Q Okay. Do you know whether the costs
5 associated with plant load agreements are considered
6 collection costs?

7 A I do not know that for certain. I know
8 there's only certain circumstances under which the
9 Postal Service will agree to plant load agreements,
10 but I don't know if they consider those costs part of
11 collection costs or not.

12 Q Okay. In any event, would it sound familiar
13 or would you agree with the notion that plant load
14 authorizations must demonstrate a clear advantage for
15 the Postal Service, which is generally defined as a
16 net recoverable cost savings after all associated
17 expenses?

18 A Yes. My understanding is that the Postal
19 Service tends to agree to plant load agreements if
20 they can skip a leg of mail or something like that, a
21 leg of transportation, but I'm not an expert at plant
22 load agreements.

23 I would agree that your statement is true
24 that unless the Postal Service simply doesn't have
25 enough room for all the mailers to be dropping their

1 mail off, then they would tend to agree with plant
2 load agreements only if there's a net cost savings to
3 them.

4 Q Right. I believe you also said another one
5 of the criteria is that it should bypass one or more
6 facilities where mail would ordinarily go?

7 A That's my understanding of a plant load.

8 Q Okay.

9 A When the Postal Service would agree to a
10 plant load agreement.

11 Q Okay. When the Postal Service can operate
12 in this fashion using plant load agreements, first, do
13 you have any idea how much of presorted mail goes
14 through plant load agreements?

15 A I do not have any idea.

16 Q Would you accept subject to check that it's
17 about 40 billion pieces?

18 A I really have no basis of knowing what the
19 right answer is to that.

20 Q Okay. In any event, I think what the Postal
21 Service is talking about, would you agree, is savings
22 in transportation costs?

23 A On net compared to what they would have to
24 pay otherwise. That's probably true.

25 Q Now, you've answered certain of our

1 interrogatories with considerations such as, and let
2 me refer you here to MMA/APWU-T1-16(d), I believe. Do
3 you see that?

4 A Yes. I'm there. I'm sorry.

5 Q Okay. You say although you haven't seen
6 specific studies, you agree with the Commission's
7 exclusion of transportation and other cost functions
8 from calculation of cost differentials for automation
9 presort workshare categories in MC95-1. Is that
10 right?

11 A I state that that was what the Commission
12 decided, and the basis for the Commission's decision
13 was as presented here in the quote from their
14 decision.

15 Q Did you put it there because you agree with
16 it?

17 A I agree that transportation costs should be
18 excluded, yes.

19 Q And is that because they're not affected by
20 worksharing?

21 A The Commission has found overall there's not
22 a strong correlation, but I also have to consider that
23 geographic differences in first class mail aren't
24 supposed to be considered in the calculations for
25 first class mail because they're supposed to be a

1 uniform rate.

2 Q I'm not sure I understand. If you have two
3 letters and they have to end up at the same place but
4 one letter can avoid interim transportation steps --
5 in other words, go from A to B directly rather than
6 going from A to C to D to B.

7 A But we have lots of letters that are
8 directed in all different directions, and they're all
9 going to different places, and they all have different
10 amounts of transportation in them.

11 I think transportation costs have generally
12 not been included in these calculations partly because
13 of what the Commission has said here, but partly
14 because we're talking about mail that's supposed to be
15 -- where geographical differentials are not supposed
16 to be considered.

17 Q But you appreciate the fact that there are
18 no geographical differences in the hypothetical I gave
19 you?

20 A In your hypothetical there may not be.

21 Q Right, so in that case there would be
22 transportation savings, right, and they would be due
23 to worksharing?

24 A In this particular instance that's a
25 possibility.

1 Q Okay. Now, in any event, the Commission
2 decision that you quote from issued more than a decade
3 ago, didn't it?

4 A Yes, it is

5 Q Okay. And are you aware of any changed
6 circumstances since the record in MC95-1 was made?

7 A Changed circumstances as to whether
8 transportation costs have been included in these
9 calculations?

10 Q No.

11 A I don't believe they have been.

12 Q Changes in terms of programs or processes
13 that make for transportation cost savings by
14 workshared mailers or made possible by workshared
15 mailers.

16 A I don't think I can answer that question.

17 Q Okay. Would you, for example, be familiar
18 with the Service's PostalOne! program?

19 A I am aware there is a PostalOne! program. I
20 am not aware of the details of PostalOne!.

21 Q So you wouldn't know, for example, or maybe
22 you would know, that one of the purposes of the
23 program is to shift transportation from air to surface
24 transportation where possible?

25 A I don't know what the goals of PostalOne!

1 are.

2 Q Okay. Since we're talking about differences
3 that have occurred in the last 10 years, has there
4 been, to your knowledge, more focus on having presort
5 mailers maintain rigorous address cleanliness and
6 conduct move update software approaches?

7 A I am aware that mailers are required to
8 check their address listings, yes.

9 Q Right. Now, the same wouldn't be true of
10 BMM mailers, would it?

11 A They may not be required to, but BMM mailers
12 are certainly checking their address listings. Any
13 mailer checks their address listings on a regular
14 basis or they don't stay in touch with the people they
15 want to stay in touch with.

16 I don't think that address hygiene is
17 strictly something that workshare mailers do. Other
18 mailers do it as well, and there's a cost to that.

19 Q A cost to the mailers?

20 A But there's also a benefit to the mailers.
21 I mean, it is to the benefit of the mailers to keep
22 their addresses updated so that they're only sending
23 their mail to the correct address and reaching the
24 people they want to reach.

25 Q Right. Well, would it be fair to say that

1 when presort mailers apply this special software which
2 the Postal Service updates the address information for
3 on a very frequent basis that they're taking a
4 proactive approach to cleaning up their addresses, as
5 opposed to say a BMM mailer who might have to rely on
6 getting a piece returned before he can find out?

7 A My office proactively checks the address
8 lists once or twice a year. I don't know what other
9 mailers do, but I assume all mailers are checking
10 their addresses to make sure that they are going to
11 the right place.

12 I think the fact that the Postal Service has
13 this information that it makes available to mailers is
14 a tremendous advantage to the mailer.

15 Q The letters that you send out are what you
16 would describe as BMM?

17 A I would not describe what our office sends
18 out as BMM strictly because we don't have enough
19 volume for BMM mail.

20 Q Meaning what do you do with your mail, or
21 what is done with your mail? You don't have to do it
22 yourself, but if you know what's done.

23 A I don't exactly know what my office does
24 with my mail other than it's metered, it's typed, it's
25 clean addresses, but I do not believe that it's trayed

1 and entered at the Postal Service because I don't
2 think we generate enough volume to do that.

3 Q Okay. And so what volume would be needed
4 for BMM?

5 A I believe the definition for BMM is that
6 it's entered in full trays.

7 Q Okay. Are you aware of proposals by the
8 Postal Service to change operations for presort
9 mailers such that they're required to maintain
10 uniformity in the percentage of mail that is contained
11 in trays between 85 and 100 percent, I believe it is?

12 A Uniformity in what way?

13 Q Well, that the trays be between 85 percent
14 and 100 percent full.

15 A I am not aware that there is such a change
16 going on, but I don't doubt it. It's not something
17 that I would know.

18 Q It's just proposed at this time, but, in any
19 event, the Postal Service has proposed it.

20 There's nothing that would require BMM
21 mailers to do the same thing, is there?

22 A I think the definition of BMM mail is that
23 it's a full tray.

24 Q So what happens to partial trays? That's
25 not BMM?

1 A That's not my understanding as to what the
2 definition of BMM is.

3 Q Okay. Are you aware of additional
4 requirements that the Postal Service is implementing
5 for I believe it's just for first class presort
6 mailers that involves delivery point validation?

7 A I am not aware of that proposal.

8 Q So you wouldn't know the additional cost
9 that imposes on presort mailers?

10 A I am not familiar with the proposal, so I
11 couldn't answer any questions about it.

12 Q Or any other burdens that might impose?

13 A I am unfamiliar with the proposal.

14 MR. HALL: Mr. Chairman, I'd like to now
15 identify an exhibit, MMA-X-3, dated today that bears
16 the title Comparison of APWU Proposed Workshared
17 Discounts to Current and USPS Proposed Discounts.

18 CHAIRMAN OMAS: Without objection.

19 (The document referred to was
20 marked for identification as
21 Exhibit No. MMA-X-3.)

22 MR. HALL: I've given two copies to the
23 reporter, and I've given copies to counsel and also to
24 the witness.

25 MR. ANDERSON: Mr. Chairman, excuse me. I

1 believe counsel has just asked that the exhibit be
2 identified at this point. He hasn't yet moved its
3 admission.

4 CHAIRMAN OMAS: Yes. You asked for it to be
5 identified. Do you want it introduced?

6 MR. HALL: I'll go ahead and establish with
7 the witness.

8 BY MR. HALL:

9 Q This is also information that was provided
10 to you over the weekend. wasn't it?

11 A If I could just clarify? When you refer to
12 X-3, you are referring to what you gave me labeled as
13 X-2? Is that correct? Okay. Then yes.

14 Q I think it looks like this.

15 A Yes. That was provided to me labeled X-2,
16 but I believe we're on the same table, and it was
17 provided to me over the weekend.

18 Q Or at least the same page, correct?

19 A Right.

20 CHAIRMAN OMAS: Mr. Hall, we need to go
21 back. You've provided it to the witness and you've
22 announced that it's an exhibit. Do you want it
23 entered into the record?

24 MR. HALL: I'm getting to that. I'm just
25 going to have the witness verify that she's reviewed

1 and found the information contained in the tables to
2 be accurate.

3 CHAIRMAN OMAS: All right. Proceed.

4 BY MR. HALL:

5 Q Can you answer that question, Ms. Kobe?

6 A Again, I checked that the rates and the
7 discounts were as presented. I don't recall that I
8 checked the math necessarily.

9 MR. HALL: Okay. At this point I would like
10 it transcribed and entered into evidence if you will,
11 please.

12 CHAIRMAN OMAS: Without objection. So
13 ordered.

14 (The document referred to,
15 previously identified as
16 Exhibit No. MMA-X-3, was
17 received in evidence.)

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Comparison of APWU Proposed Workshared Discounts
to Current and USPS Proposed Discounts

First-class Letter Category	Current Rates	Current Discounts	APWU Proposed Rates	APWU Proposed Discounts	APWU Proposed Discount Change	APWU Proposed Discount % Change
Single Piece	39		41			
Nonautomation	37.1	1.9	37.1	3.9	-2.00	105%
Mixed AADC	32.6	6.4	35.1	5.9	0.50	-8%
AADC	31.7	7.3	34.0	7.0	0.30	-4%
3 Digit	30.8	8.2	33.6	7.4	0.80	-10%
5 Digit	29.3	9.7	32.1	8.9	0.80	-8%

First-Class Letter Category	USPS Proposed Rates	USPS Proposed Discounts	APWU Proposed Rates	APWU Proposed Discounts	APWU Proposed Discount Change	APWU Proposed Discount % Change
Single Piece	42		41			
Nonautomation	40	2.0	37.1	3.9	-1.90	95%
Mixed AADC	34.6	7.4	35.1	5.9	1.50	-20%
AADC	33.5	8.5	34.0	7.0	1.50	-18%
3 Digit	33.1	8.9	33.6	7.4	1.50	-17%
5 Digit	31.2	10.8	32.1	8.9	1.90	-18%

1 BY MR. HALL:

2 Q This shows that basically your proposal as
3 compared to the current discounts would reduce them by
4 between four and 10 percent. Is that right?

5 A For the automated discount.

6 Q Right.

7 A That would be correct if your math is
8 correct.

9 Q As compared with the Postal Service's
10 proposed discounts in this case, there would be a
11 range of 17 to 20 percent?

12 A That's what the table shows, yes.

13 Q Okay. Thank you. Could you turn now to
14 your response to Interrogatory MMA/APWU-T1-20(b)?

15 A I am there.

16 Q Okay. I think we may have steered you a
17 little wrong there. We referred you in part to
18 Library Reference USPS-LR-41, pages 4 and 22. That
19 should have been Library Reference 141

20 With that change, can you answer the
21 question about where BMM and NAMMA letters enter the
22 mailstream in the models, the Postal Service models?

23 A I think I did at one point answer the
24 question about where BMM enters. I do believe that
25 BMM would enter at the outgoing ISS, if that's your

1 question.

2 Q Yes. And the same would be true for NAMMA
3 letters, wouldn't it?

4 A I believe that NAMMA letters are shown to
5 enter at outgoing ISS.

6 Q Great. Thank you. I'm going to guess that
7 this interrogatory is the same, and it's 20(c), I
8 believe. Could you focus on your answer to that
9 interrogatory?

10 A The answer to 20(c)?

11 Q I believe.

12 A Okay. I am there.

13 Q Now, you say that BMM letter cost is
14 determined from the CRA costs and probably reflects
15 more costs than would be attributable to just BMM
16 letters. What other costs do ynu have in mind?

17 A There are costs in the CRA that are included
18 in the calculation that might not apply to BMM
19 letters.

20 For example, there's certain cost pools that
21 are included because those cost pools have costs in
22 the comparator such as nonautomated presort categories
23 which BMM might not have any costs in.

24 **An** example I think might be pouching where
25 I'm not sure that BMM letters would necessarily ever

1 have any costs in pouching, but that cost pool is
2 included in the calculation.

3 Q Is your answer there meant to mean that the
4 cost of the BMM benchmark is overstated because there
5 are other costs that are included in the metered mail
6 proxy that you used and that I guess we all used?

7 A Yes, because the **BMM** letter cost is not
8 directly calculated. It can only be proxied from a
9 more aggregated CRA total.

10 Q And that's because there is no direct
11 information about the existence, extent or cost of
12 BMM? Is that right?

13 A There's certainly no direct Postal Service
14 cost calculations for BMM letters.

15 Q Okay. Well, in terms of the metered mail
16 letter proxy that you used you resoved cancellation
17 costs, didn't you?

18 A I did.

19 Q Okay. So would that be one of the costs?

20 A That's one of the costs which doesn't seem
21 to apply to either. Therefore, it doesn't need to be
22 in the cost comparators at all.

23 I'm talking about a cost that might still be
24 included in the comparators because one of the presort
25 groups might incur costs in those cost pools, but that

1 doesn't necessarily mean that BMM would incur the
2 exact amount of costs in the cost pool that's coming
3 for all metered letters.

4 Q Okay. Well, let me give you another
5 example. BMM isn't prebarcoded, is it?

6 A No, it isn't.

7 Q But are you aware or do you recognize that
8 the metered mail letter stream includes letters that
9 are prebarcoded?

10 A The metered mail mailstream might certainly.

11 Q And a good example of that would be courtesy
12 reply envelopes?

13 A If it has a meter strip on it. A lot of
14 courtesy reply envelopes aren't mailed with meter
15 strips necessarily, but I would assume there
16 probably --

17 Q Some do and some don't, but there is --

18 A There are probably some in that mailstream.

19 Q Right. As far as a single piece overall
20 mailstream is concerned, prebarcoded letters are
21 approximately 15 percent. Is that your understanding?

22 A I think I have seen that number somewhere.

23 Q Okay. And whether or not these prebarcoded
24 CRM letters that we've been talking about bear a stamp
25 or a meter strip, they are required to be furnished to

1 customers by the Postal Service if the mailer is
2 receiving a workshare discount. Isn't that correct?

3 A I don't think I know what all the rules are
4 related to that, so I'm not sure I could answer that
5 question.

6 Q Okay. Perhaps you could just accept it
7 subject to check.

8 A I would have to accept it subject to check
9 because I don't know the answer.

10 Q Okay. In any case, those letters would have
11 a lower cost because, unlike **BMM**, when you model them
12 they don't enter the model at the outgoing ISS?

13 A We're talking about CRM letters?

14 Q Yes.

15 A I haven't ever modeled CRM letters, so I
16 can't answer that question.

17 Q Well, they have a FIM mark. Are you aware
18 of that?

19 A In looking at the ones that I get, I've
20 noticed they tend to have FIM marks on them.

21 Q Right. And that tends to take them away
22 from operations such as the RBCS? That and the fact
23 that they are prebarcoded?

24 A I think that if they ran identify them as
25 being prebarcoded at an earlier stage they would not

1 send them through RBCS, but I haven't made a careful
2 study of modeling all CRM mail, so I don't know
3 whether that's true of all CRM mail.

4 Q Okay. Would you consider providing very
5 efficient single piece letters such as CRM to be
6 worksharing by the mailer that sends them out?

7 A Not necessarily. I mean, it could be the
8 business decision of the mailer that they want to make
9 sure that the mail is returned to them, because it
10 usually has a check in it, very accurately and very
11 fast because that affects their cashflow. It would be
12 a good business decision on their part.

13 Q Well, it's also a requirement, isn't it?

14 A I don't know. I mean, some bills I get have
15 them in them. Some bills I get don't have them in, so
16 I don't know whether it's a requirement or not.

17 Q Okay. You do know that it's a requirement
18 for anybody that receives a presort workshare
19 discount, don't you?

20 A To include a CRM letter in it?

21 Q To include a prebarcoded CRM letter if they
22 include anything

23 A I think I already said I didn't know that.
24 You said subject to check.

25 Q Okay.

1 A You were stating that subject to check. I
2 said I did not know that as a fact myself.

3 Q Okay. That's fine.

4 Could you verify some numbers for me,
5 please? They come from your Library Reference 1,
6 specifically nonworkshared related fixed unit costs of
7 BMM of 1.666 cents. I believe you'll find that on
8 page 2.

9 A Yes.

10 Q Okay. And for presorted, the comparable
11 figure would be .508 cents or .5084 if you wanted to
12 get technical, but I think you used --

13 A .508 I believe is what's showing in my
14 library reference. That's what I have printed out
15 anyway.

16 Q Okay. Now, these are all costs that are
17 excluded from your analysis of workshare cost savings.
18 Is that right?

19 A That's correct.

20 Q Okay. There's approximately a 1.2 cent
21 difference?

22 A Approximately.

23 Q Okay. If these costs were not affected by
24 worksharing, wouldn't you expect the difference to be
25 close to zero?

1 A No, because you're comparing two very unlike
2 groups of mail here.

3 The CRA on page 2 is all metered mail, and
4 we don't know what's in the nonBMM portion of metered
5 mail so we have no idea whether that's a worksharing
6 difference or whether that has to do with other
7 characteristics of the mail.

8 Q Well, if you had included these costs in
9 your analysis and there was no effect that was
10 attributable to worksharing then it shouldn't have any
11 effect on the derived cost savings, should it?

12 A I'm not sure I understand your question. I
13 mean, the difference between them doesn't necessarily
14 have anything to do with the characteristics that we
15 are looking at because this is a much broader group of
16 mail that's being represented on page 2 than is being
17 represented on the other page.

18 Q Well, aren't they exactly the same?

19 A The cost pools are the same, but the mail
20 being represented is not necessarily the same.

21 Q And one type of mail is workshared, the
22 presorted mail, and one type is not? Is that right?

23 A We are approximating the bulk metered mail
24 cost from a much broader group of mail costs.

25 We don't know what other mail is necessarily

1 in that metered mail grouping that's being represented
2 by the CRA on page 2 and whether the differential in
3 the nonworksharing related category has anything to do
4 with worksharing or not worksharing or has anything to
5 do with the fact that these two pools of mail are very
6 different. We don't know what causes that
7 differential.

8 Q So you can't rule out worksharing, but your
9 answer is you don't really know what causes those
10 differences?

11 A We've ruled out worksharing for a couple of
12 different reasons here, partly because some of these
13 cost pools should not apply to bulk metered mail
14 letters and therefore they've been ruled out, and
15 partly because the Commission has determined
16 previously that these don't have any bearing on
17 worksharing calculations.

18 Q Okay. So you're in part at least following
19 Commission precedent?

20 A In part Commission and Postal Service
21 calculations from the past.

22 MR. HALL: Okay. Let's try to find Exhibit
23 4.

24 Let me identify this for the record, Mr.
25 Chairman. It's marked MMA-X-4. It consists of four

1 pages. Page 1 has the title Comparison of Worksharing
2 Cost Savings Results.

3 (The document referred to was
4 marked for identification as
5 Exhibit No. MMA-X-4.)

6 BY MR. HALL:

7 Q Do you have a copy of that before **you**?

8 A I do.

9 Q I would also like **you** to look at your
10 response to 28(c) and the library reference that's
11 marked as No. 3.

12 A 28(c)? Okay. I have that.

13 Q Okay. Do you see what we asked you to do
14 there?

15 A You had calculated a table, and **you** were
16 asking me if these were the numbers that I would have
17 come up with.

18 Q Yes, if you had made two changes. Is that
19 right?

20 A Yes.

21 Q And what were those changes?

22 A As you requested, you said, "If you had
23 utilized the Commission's attributable costs in
24 APWU-LR-1 and classified the cost pools as the Postal
25 Service has," and in parens you refer to LR-L-141,

1 "then would you obtain the results shown in the
2 following table compared to your results?"

3 The following table had those labeled as
4 APWU Unit Cost Savings, PRC Attributable Costs, which
5 was the column you were asking me about, I believe.

6 Q Yes. And you didn't confirm those numbers?

7 A No, I did not.

8 Q You provided us with a narrative that
9 included some results I believe and then a table that
10 you redid. Is that right?

11 A That's right, because it was unclear to me
12 exactly whether you were trying to get sort of an
13 equivalent set of numbers that would be done the way
14 the APWU had done their numbers but would use the PRC
15 costs or whether you wanted only these particular
16 changes made so it wasn't exactly clear to me which of
17 those you were looking for.

18 I provided a table and specified how I had
19 come up with the numbers, but indicated I really
20 wouldn't call either of those the APWU calculation.

21 Q Okay. Recognizing that you don't have to
22 call them the APWU calculations because we asked you
23 to do something, so that's fair, but I just want to go
24 over the results and what you did because subsequently
25 you did provide us with Library Reference 3. Is that

1 right?

2 A That's correct.

3 Q Okay. By the way, that was prepared on
4 October 13 or before?

5 A I don't remember. I think in calculating
6 the table we did not provide the library reference the
7 same day that we provided the table.

8 Q Right, but it was available the same day.

9 A I had made some calculations and then I made
10 the table available the next business day, but then
11 there was some confusion about the person who was
12 supposed to label the CD wasn't there that day or
13 something. I don't know. I had the table earlier
14 than it was submitted to the Commission.

15 Q Well, let's see. I want to understand what
16 you did. Keep in mind what we asked you to do here,
17 use the PRC attributable cost methodology rather than
18 the Postal Service's cost methodology that you did
19 use, that's right?

20 A That's correct.

21 Q Then use the USPS cost pool classifications.
22 Is that right?

23 A I believe that's one of the things that was
24 in your question.

25 Q Okay, but you didn't **use** the USPS cost pool

1 classifications as we requested, did you?

2 A In my answer to this question I believe I
3 used the APWU cost pool allocations with the PRC cost
4 or as close as I could to getting to match those.

5 Q Okay. So that's one difference. Now, you
6 changed the delivery cost savings by using NAMA as the
7 benchmark rather than nonautomation as you had used in
8 APWU-LR-1. Is that right?

9 A I don't recall that I did that. I don't
10 think that was my intention if I did.

11 Q Well, in LR-1 on the summary sheet you have
12 a reference to LR-67. which is Mr. Kelley's library
13 reference. Is that right?

14 A We're talking Library Reference 1 or Library
15 Reference 3? Library Reference 1?

16 Q In Library Reference 1 you reference the
17 USPS Library Reference 67.

18 A Correct.

19 Q But in Library Reference 3 you switch to
20 using the delivery unit cost in USPS LR-1-147.

21 A Correct.

22 Q Okay. That also wasn't a change that we
23 asked you to make?

24 A That was the PRC cost though. The quest on
25 was asking me about PRC costs.

1 Q PRC attributable costs. The question really
2 went to processing costs, but in any event when it
3 came to including delivery costs as you did you made a
4 change from your own method.

5 A I changed to the PRC calculated delivery
6 costs as I understood the Postal Service or as I
7 understood it Library Reference 147 was the PRC
8 version of delivery costs.

9 Q Well, let's see if we can get on the same
10 page again here. Library Reference 147 uses NAMA as
11 the benchmark, right?

12 A Well, I think that what I'm using as bulk
13 metered mail benchmark is still the nonautomated
14 presort letters. Library reference 147 is simply the
15 source of the PRC unit delivery cost numbers, but I
16 think I still used the nonautomation presort letter
17 estimate from Library Reference 147 as the bulk
18 metered mail estimate.

19 Q Okay. Well, you did use the PRC
20 attributable cost methodology, but you changed the
21 benchmark from nonautomation to NAMA and --

22 A That was not my intention, and as I read
23 Exhibit No. 3 I don't think that's what I did, but I'd
24 have to go back and double check against Library
25 Reference 147 and make sure that's true. I don't have

1 Library Reference 147 with me.

2 Q Okay. Well, why don't you accept subject to
3 check that it was NAMA. You used nonautomation in
4 your Library Reference 1. Am I correct that you used
5 it because that's what the Commission had used in I
6 believe as recently as R2000-1?

7 A Yes. That's what the Commission used in
8 R2000-1.

9 Q Okay. Again, you were being consistent with
10 Commission precedent by using that?

11 A That was what the Commission had used and
12 that's what I used in my number.

13 Q Why is it then that you didn't use the PRC
14 attributable cost methodology?

15 A Because nobody would attest to those numbers
16 being right. I needed to calculate new numbers and
17 have the Postal Service say yes, these are the right
18 numbers and have Mr. Smith confirm them. The Postal
19 Service will confirm its own methodology, but not the
20 PRC's methodology.

21 Q Well, the numbers are on the record and if
22 the Commission can find its way to using its own
23 attributable cost methodology you would certainly
24 agree that would be reasonable, wouldn't you?

25 A The Commission can recalculate the numbers

1 itself and doesn't have to depend on the Postal
2 Service's ones in the record. Certainly if the
3 Commission chooses to recalculate the numbers
4 themselves that's quite fine. That's their decision.

5 Q Doing so would be consistent with its own
6 precedent.

7 A That's what it has done in the past. That's
8 correct.

9 MR. HALL: Right. Okay. Looking here again
10 at Exhibit No. MMA-X-4, which I believe has been
11 identified -- perhaps we could have it transcribed in
12 the record?

13 MR. ANDERSON: Pardon me. Mr. Chairman, I
14 don't recall that this document has been the subject
15 of questions yet as to the accuracy of the numbers in
16 it and therefore would request that Mr. Hall withhold
17 his request for it to be included until we've gone
18 through that exercise.

19 MR. HALL: Okay. I **was** just going to have
20 it transcribed.

21 CHAIRMAN OMAS: Thank you very much.

22 BY MR. HALL:

23 Q Well, let's see. The numbers that you
24 needed to verify are on page 1, aren't they?

25 A The net numbers are on page 1, but in order

1 to verify whether those are what they are stated as
2 being you have to look at some of the other numbers
3 underlying those on the other pages that you've
4 provided here.

5 Q Okay. We provided you with a total of four
6 pages in this exhibit, but actually we provided you
7 with complete back up in the electronic file that was
8 furnished to you, didn't we?

9 A Yes, you did.

10 Q Okay. So are the numbers on page 1
11 accurate?

12 A Because of our previous discussion I have a
13 problem with certainly the title on the Column 3 as
14 being called PRC costs because as you noted these
15 calculations use **USPS's** version of unit delivery
16 costs, not the PRC version of unit delivery costs, so
17 while you used the PRC version of the mail processing
18 costs the unit delivery costs are not PRC version
19 costs.

20 Q Well, in terms of delivery do you know or
21 would you accept subject to check that the difference
22 between the Postal Service methodology and the
23 Commission methodology is pretty darn close?

24 A They are pretty close, but it would lower
25 your numbers slightly and certainly you have used the

1 USPS version of the unit delivery costs in these
2 calculations, so as long as you just wanted to refer
3 to that, you know, change your heading of Column 3 so
4 it's clear to everybody that's not necessarily just
5 PRC costs then I would say that the calculation
6 appears to be correct.

7 Q Okay. I think we can stipulate to that
8 clarification. That's fine.

9 MR. ANDERSON: Mr. Chairman, may I ask that
10 MMA submit a revised page 1 with the corrected heading
11 just to avoid any confusion in the record?

12 CHAIRMAN OMAS: Mr. Hall, would you do that,
13 please?

14 MR. HALL: Well, I think the more
15 expeditious thing would be simply for -- my
16 handwriting is terrible and I missed my calling as a
17 doctor, but I have my able assistant here who can
18 relabel the copies that will go into the record and I
19 think that will expedite things.

20 MR. ANDERSON: Very good. Thank you, Mr.
21 Chairman.

22 CHAIRMAN OMAS: Thank you very much.

23 Thank you, Mr. Anderson.

24 MR. ANDERSON: Thank you, Mr. Hall.

25 MR. HALL: With that I would like to move

1 this document to be corrected momentarily into
2 evidence.

3 CHAIRMAN OMAS: Without objection. So
4 ordered.

5 (The document referred to was
6 previously marked for
7 identification as Exhibit No.
8 MMA-X-4 and was received in
9 evidence.)

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Comparison Of Worksharing Cost Savings Results
(Cents)

Client Charge Data Columns	Unit Cost With USPS					Change in Unit Cost Savings
	APWU Total Unit Cost	APWU Unit Cost Savings	Cost Pool Classifications/PRC with USPS Costs	Unit Cost Savings With USPS Cost Pool Classifications/PRC Costs	Change in Unit Cost Savings	
BMM Letters (Definitive)	14.400	3.920	11.167	4.939	1.019	
Nonautomation	10.360	4.200	10.722	5.384	1.184	
Auto MAADC	10.080	5.409	9.255	6.851	1.442	
Auto AADC	8.871	5.838	8.736	7.370	1.532	
Auto 3-Digit	8.442	7.320	6.959	9.147	1.827	
Auto 5-Digit	6.960					

I E APWU-LR-1, p. 1
 I E Based on Col (1)
 I K Page 2
 I I Based on Col (3)
 I II Col (4) - Col (2)

FIRST-CLASS MAIL PRESORT LETTERS AND BMM SUMMARY

BENCHMARK RATE CATEGORY	Mail Processing					Delivery		Total		Total
	Total	Worksharing Related		Total	Worksharing Related		Total	Worksharing Related	Unit Cost Savings	
		Unit Cost	Unit Cost		Unit Cost	Unit Cost				
Bulk Metered Mail (BMM) Letters		(1)	(2)	(3)	(4)	(5)				
Nonautomation Presort Letters										
Nonautomation Nonmachinable Mixed ADC	28 780	11 410	28 083	4 696	16 106	4 939				
Nonautomation Nonmachinable ADC	22 862	6 471	22 165	4 696	11 167					
Nonautomation Nonmachinable 3-Digit	19 837	18 140	19 140							
Nonautomation Nonmachinable 5-Digit	10 279	9 582	10 279							
Nonautomation Machinable Mixed ADC	7 191	6 494	7 191							
Nonautomation Machinable AADC	7 191	6 494	7 191							
Nonautomation Machinable 3-Digit	6 644	5 947	6 644							
Nonautomation Machinable 5-Digit	6 644	5 947	6 644							
Automation Mixed AADC Letters	7 159	6 462	7 159	4 260	10 722	5 384				
Automation AADC Letters	5 842	5 145	5 842	4 110	9 255	6 851				
Automation 3-Digit Presort Letters	5 363	4 686	5 363	4 050	8 736	7 370				
Automation 5-Digit Presort Letters	3 886	3 189	3 886	3 770	6 959	9 147				
Automation Carrier Route Presort Letters	2 886	2 189	2 886	5 880	8 069					

Substitution from USPS-LR-L-141, p. 1

USPS Proposed Discount From FC Single Piece Rate (6)	Amount by which Proposed USPS Discounts Exceed Costs Avoided (7)
2.0	-2.94
7.4	2.02
8.5	1.65
8.9	1.53
10.8	1.65

Sources

- (1) Worksheet "Presort Letter Sum"
- (2) Worksheets "CRA- Metered Letters", "Presort Letter Sum"
- (3) LR-L-67 UDCCModel USPS.xls "1. Table 1", witness Kelley response to ABANAPM T-22-2(b) revised 8/15/2006
- (4) Column (2) + Column (3)
- (5) Each line item in Column (4) subtracted from column (4) BMM Letters
- (6) Calculated from USPS proposed First Class Rate Schedule, Attachment A of Docket No. R2006-1 Request, page 4
- (7) Column (6) - Column (5)

**FIRST-CLASS MAIL LETTERS MAIL PROCESSING UNIT COST SUMMARY
PRESORT LETTERS**

Table 1: CRA Mail Processing Unit Costs

Worksharing Related (Proportional) Cost Pools	1/	3.234
Other Worksharing Related (Fixed) Cost Pools	2/	1.069
Non-Worksharing Related (Fixed) Cost Pools	3/	0.697
Total	4/	5.000

From Page 3

Substitution from USPS-LR-L-110, page 2

Table 2: CRA Proportional Adjustment Factor

	Model Cost	BY 2005 Volume	Volume %
Base Model Costs	[1]	[2]	[3]
Nonautomation Nonmachinable Mixed ADC	25.862	10,182,258	0.02%
Nonautomation Nonmachinable ADC	20.196	4,818,879	0.01%
Nonautomation Nonmachinable 3-Digit	17.300	6,177,830	0.01%
Nonautomation Nonmachinable 5-Digit	8.150	1,250,323	0.00%
Nonautomation Machinable Mixed AADC	5.193	716,553,574	1.49%
Nonautomation Machinable AADC	5.193	238,935,667	0.50%
Nonautomation Machinable 3-Digit	4.670	625,849,904	1.30%
Nonautomation Machinable 5-Digit	4.670	135,548,214	0.28%
Automation Mixed AADC	5.163	2,875,271,556	5.97%
Automation AADC	3.902	2,500,364,924	5.19%
Automation 3-Digit	3.463	22,008,987,750	47.56%
Automation 5-Digit	2.029	17,449,870,850	36.24%
Automation Carrier Route	1.073	673,821,132	1.40%
Total Weighted Model Cost	5/	48,147,532,845	100.00%
CRA Proportional Adjustment	6/	1.045	

Table 3: Adjusted Letter Unit Mail Processing Costs

		Worksharing	Non	Total
Rate Category				
Nonautomation Nonmachinable Mixed ADC	25.862	26.083	0.697	26.780
Nonautomation Nonmachinable ADC	20.196	22.165	0.697	22.862
Nonautomation Nonmachinable 3-Digit	17.300	19.140	0.697	19.837
Nonautomation Nonmachinable 5-Digit	8.150	9.110	0.697	10.279
Nonautomation Machinable Mixed AADC	5.193	6.481	0.697	7.191
Nonautomation Machinable AADC	5.193	6.494	0.687	7.191
Nonautomation Machinable 3-Digit	4.670	5.947	0.687	6.644
Nonautomation Machinable 5-Digit	4.670	5.947	0.697	6.644
Nonautomation Presort Combined		6.471	0.697	7.168
Automation Mixed AADC	5.163	6.462	0.697	7.159
Automation AADC	3.902	5.145	0.697	5.842
Automation 3-Digit	3.463	4.586	0.697	5.383
Automation 5-Digit	2.029	3.189	0.697	3.886
Automation Carrier Route	1.073	2.189	0.697	2.866

Sources:

5/: Weighted Average of Modeled costs from [1] weighted by volume percentages in [3].

6/: (1) / (5).

FIRST CLASS MAIL PRESORT LETTERS
CRA MAIL PROCESSING COSTS

Total Unit Costs from USPS-LR-L-110

Cost Pools		Total (Cents)	Proportional (Cents)	Worksharing related (Cents)	Non Worksharing related (Cents)
MODS 11	BCS/	0.000			
MODS 11	BCS/DBCS	1.488	1.488		
MODS 11	OCR/	0.161	0.161		
MODS 12	FSM 100	0.010			0.010
MODS 12	FSM/	0.000			0.000
MODS 12	FSM/1000	0.008			0.008
MODS 13	MECPARC	0.000			0.000
MODS 13	SPBS OTH	0.007			0.007
MODS 13	SPBSPRIO	0.000			0.000
MODS 13	1SACKS_M	0.011			0.011
MODS 13	1TRAYSRT	0.163			0.163
MODS 14	MANF	0.005			0.005
MODS 14	MANL	0.285	0.285		
MODS 14	MANP	0.005			0.005
MODS 14	PRIORITY	0.002			0.002
MODS 15	LD15	0.077	0.077		
MODS 17	1CANCEL	0.068		0.068	
MODS 17	1DISPATCH	0.087			0.087
MODS 17	1FLATPRP	0.022			0.022
MODS 17	1INTRPREP	0.011		0.011	
MODS 17	1OPBULK	0.037	0.037		
MODS 17	1OPPREF	0.180	0.180		
MODS 17	1OPTRANS	0.032			0.032
MODS 17	1PLATFRM	0.433		0.433	
MODS 17	1POUCHING	0.017	0.017		
MODS 17	1PRESORT	0.021		0.021	
MODS 17	1SACKS_H	0.019			0.019
MODS 17	1SCAN	0.034			0.034
MODS 18	BUSREPLY	0.004			0.004
MODS 10	EXPRESS	0.001			0.001
MODS 10	MAILGRAM	0.001			0.001
MODS 18	REGISTRY	0.001			0.001
MODS 18	REWRAP	0.003			0.003
MODS 18	1EEQMT	0.014			0.014
MODS 18	1MISC	0.058		0.058	
MODS 18	1SUPPORT	0.019		0.019	
MODS 10	INTL ISC	0.006			0.006
MODS 19	PMPC	0.000			0.000
MODS 41	LD41	0.027	0.027		
MODS 42	LD42	0.001	0.001		
MODS 43	LD43	0.182	0.182		
MODS 44	LD44	0.072	0.072		
MODS 48	LD48 EXP	0.005			0.005
MODS 48	LD48 OTH	0.036			0.036
MODS 48	LD48_ADM	0.030			0.030
MODS 48	LD48_SSV	0.009			0.009
MODS 49	LD49	0.207		0.207	
MODS 79	LD79	0.114		0.114	
MODS 99	1SUPP_F1	0.000		0.000	
MODS Subtotal		0.000	3.881	0.931	0.515
BMCS	NMO	0.000			0.000
BMCS	OTHR	0.000			0.000
BMCS	PLA	0.001			0.001
BMCS	PSM	0.000			0.000
BMCS	SPB	0.000			0.000
BMCS	SSM	0.000			0.000
BMCS Subtotal		0.001	0.000	0.000	0.001
NON MODS	ALLIED	0.138		0.138	
NON MODS	AUTO/MEC	0.233	0.233		
NON MODS	EXPRESS	0.000			0.000
NON MODS	MANF	0.000			0.000
NON MODS	MANL	0.465	0.465		
NON MODS	MANP	0.002			0.002
NON MODS	MISC	0.177			0.177
NON MODS	REGISTRY	0.003			0.003
Non MODS Sub		0.000	0.688	0.138	0.182
0.000	0.000				
Total		5.000	3.234	1.069	0.897

1 MR. ANDERSON: Yes. Again with the
2 reservation that the witness has not sponsored the
3 document. It is what it is.

4 CHAIRMAN OMAS: Right. Okay.

5 MR. HALL: Those are all the questions we
6 have, Mr. Chairman.

7 CHAIRMAN OMAS: Thank you, Mr. Hall.

8 Our next participant is Ms. McKenzie.
9 Before we begin how long do you think you're going to
10 be with this witness? Because of the timing it's so
11 near the lunch hour and I think the witness needs a
12 rest.

13 MS. MCKENZIE: I would say probably 30 to 45
14 minutes. Probably closer to 30, but I tend to be an
15 optimistic person.

16 CHAIRMAN OMAS: Okay. Well, why don't we go
17 ahead since that would only be 12:15. Why don't we
18 try it and if need be we'll just stop.

19 Ms. McKenzie?

20 MS. MCKENZIE: Thank you, Mr. Chairman.

21 CROSS-EXAMINATION

22 BY MS. MCKENZIE:

23 Q Ms. Kobe, if you could turn to **MMA-T-125**,
24 please?

25 A I'm there.

1 Q Okay. To your response. I was trying to
2 track No. 3 with the cost pools that seem to have
3 changed along the way. In your Point No. 3 you state
4 that the PRC allocated the LD-41, LD-42, LD-43, LD-44
5 and LD-48 cost pools to workshare related fixed.
6 Witness Van Ty Smith now combines those cost pools
7 with STABRA, nonmods cost pools, and I've allocated
8 the combined totals rather than the individual ones.

9 Could you direct me because I actually just
10 couldn't follow it to where you did that? I mean, one
11 place to look would either be in your testimony or
12 into your revised APWU Library Reference 1, page 2. I
13 think that's where you would find it.

14 A In rereading this I actually see there is an
15 error in this answer which I apologize for. When I
16 reread these yesterday I didn't catch that this **was** an
17 error. Now I've lost my place. We're on 25, correct?

18 Q Yes.

19 A I believe 48 I think was a nonworkshare
20 related originally, although since I don't have my
21 Commission numbers here I can't double check that, but
22 I think that 48 was probably not workshare related
23 fixed ever. I believe that was nonworkshare related
24 and that the others were workshare related and that
25 all of those Van Ty Smith has changed her methodology

1 for allocating those.

2 On page 2 of my Library Reference 1 none of
3 those cost pools show up. That is also true of Van Ty
4 Smith's allocations because she's now including those
5 cost pools in with the nonmod station and branches and
6 allocating them according to her methodology for
7 allocating station and branch numbers as opposed to
8 having separate mods cost pools.

9 I'm not absolutely certain I've answered
10 your question though.

11 Q My confusion is well, in your answers you
12 say I've allocated the combined totals rather than the
13 individual ones and frankly I was pondering this last
14 night and didn't have access to my analyst and I just
15 couldn't see where it showed up in your allocations of
16 the cost pools.

17 A Those cost pools do not exist as separate
18 cost pools now. Van Ty Smith does not show those as
19 separate cost pools. She takes the costs previously
20 associated with those cost pools and puts them down in
21 the nonmod stations and branches and does allocations
22 of the costs including those cost pools or what was
23 formerly in those cost pools and she uses the nonmod
24 station and branch methods of allocation to allocate
25 those.

1 So I'm just saying that since I followed Van
2 Ty Smith's methodology there thac those cost pools did
3 not exist separately in the numbers that I had
4 witnessed Van Ty Smith confirm, they did not exist
5 separately in the cost numbers I had witnessed Mark
6 Smith confirm. Consequently the costs for those cost
7 pools exist however Van Ty Smith's methodology handles
8 them.

9 Q Do those costs exist in cost pools that are
10 in your library reference? I mean, I was looking at
11 the nonmods and I didn't know if they existed in one
12 of the nonmods cost pools.

13 A I believe that those costs have been added
14 in with the nonmods cost pools and allocated the way
15 the nonmods cost pools have been allocated. Could I
16 tell you exactly which one is in which nonmods cost
17 pool? I cannot tell you that. I followed Witness Van
18 Ty Smith's methodology and just used the total set of
19 numbers.

20 Q Okay. Well, then I'm still a little
21 confused. Could you look at MMA/APWU-T-128, your
22 response to A? In A you seem to be making some
23 qualifications to your answer there based on the
24 question. I was focusing on Exhibit No. 3. Again, it
25 says classify the cost pools as they've been

1 classified except for LD-1 to LD-44 and LD-48 which
2 have been aggregated, but here would be allocated as
3 workshare proportional following the PRC 2001
4 allocations.

5 A I believe we're talking here about using
6 USPS Library Reference 141. That's a PRC version
7 library reference. There were new sets of cost pools
8 calculated for this library reference. This is not
9 using the set of cost pools that I had confirmed by
10 the USPS Witnesses Van Ty Smith and Smith, these are
11 just the cost pools that are in Library Reference 141.

12 These did identify cost pool numbers having
13 to do with these cost pools that Van Ty Smith had
14 aggregated in with the nonmods in her calculations for
15 the USPS, but were evidently recalculated somewhat
16 differently for Library Reference 141. So I now have
17 Library Reference 141 whose cost numbers I'm trying to
18 fit into a category that is difficult to fit them into
19 because the allocations have been done somewhat
20 differently.

21 Now, those cost pools have existed in
22 earlier cases, and so I went back to the earlier cases
23 and allocated them that way, but that's not
24 necessarily exactly the same as they have been
25 allocated in library reference APWU Library Reference

1 1 because of the change in Van Ty Smith's methodology.

2 Q So if I go back to Van Ty Smith's
3 methodology I might be able to kind of trace how those
4 cost pools are allocated in your Library Reference 1?

5 A Yes. I certainly hope so.

6 Q I was just looking and I thought I would
7 actually see --

8 A No, because she has aggregated them at a
9 further back stage in the calculation. Those cost
10 pools don't exist as separate mods cost pools anymore,
11 they exist as costs done in the nonmods cost pools
12 now.

13 Q Thank you. Now, when you were being cross-
14 examined by Mr. Levy you stated that your proposal for
15 your rates do end up with larger discounts than your
16 cost avoidances would indicate. Is that correct?

17 A That's correct.

18 Q Do you know for example for your auto five-
19 digit what the pass-through would be?

20 A I did not calculate the actual pass-
21 throughs, so I don't know the exact number except that
22 it's not equal to the cost avoided number.

23 Q Did you calculate the pass-throughs on any
24 of your rate design?

25 A I did not.

1 Q Would it surprise you to hear that 120
2 percent for the five-digit would be the pass-through?

3 A It wouldn't surprise me. No.

4 Q Okay. How did you pick the discounts? I
5 mean, you have a pass-through greater than 100
6 percent. How did you pick the discounts? I was
7 thinking in terms of the pass-through you could have
8 had a pass-through of 130, you could have had a pass-
9 through of 110. I mean, how did you pick your
10 particular discounts?

11 A This is sort of a narrative process as
12 you've pointed out. I was trying to keep the
13 automated discounts so that they wouldn't be
14 tremendously out of line with the rate of increase
15 that the Postal Service was proposing overall, and so
16 the weighted increase of these proposed ones is I
17 believe 8.8 percent and the Postal Service's original
18 proposal for all the rates overall was about eight and
19 a half percent.

20 Also, I was trying to pick one that if it
21 was possible to lower the single piece rate to 41
22 cents would still provide enough revenue to do that
23 with if both of those things could be met at one time.

24 Q Now, if you could turn to page 9 of your
25 testimony, Table 2, please?

1 A I'm there.

2 Q Okay. This shows that the Postal Service
3 has proposed with its single piece rate of 7.7 percent
4 increase, you've proposed a 5.1 percent. That's
5 different, I would say significantly different, isn't
6 it, than the systemwide average?

7 A That is significantly different from the
8 systemwide average. It does have to do of course with
9 the fact that the single piece rate has traditionally
10 only been changed by a whole cent at a time, so you
11 either go from 5.1 to 7.7 with no stopping in between

12 Q The integer restraint?

13 A That's right.

14 Q Okay. If you could turn to MMA/APWU-T-1-
15 7(d)?

16 A I'm there.

17 Q Okay. If I've captured the question
18 correctly the question was if your use of BMM as the
19 benchmark from which to measure workshared cost
20 savings depended upon continued existence of
21 significant volume shifts from single piece to
22 presort. That was the question. Your answer was no,
23 the test is whether a piece of mail will provide the
24 same contribution to overhead whether or not it is
25 workshared.

1 Now, I wanted to just briefly explore how
2 this works at a more aggregate level with respect to
3 that. Would the use of the BMM benchmark result in
4 the same contribution from presort and from single
5 piece?

6 A Overall in the aggregate I don't think it
7 would.

8 Q Have you done the analysis?

9 A Only to the extent that we made an estimate
10 of the analysis for I believe it was **MMA-22** using the
11 test here, before rates unit costs compared to the
12 after rates revenues.

13 Q Do you have an opinion about whether single
14 piece or workshare should pay the same or whether one
15 should pay more than the other?

16 A In the aggregate?

17 Q Yes.

18 A I think that the way it works out it tends
19 to mean that workshare will tend to pay a little bit
20 more in the aggregate than the total because if the
21 comparator is pieces of mail that look very similar
22 and that the workshare mail tends to have a little bit
23 more cleaner characteristics and you're comparing it
24 to the cleaner side of the single piece then that
25 means that probably you're comparing it to a piece

1 that's got a little bit lower cost than the average
2 single piece and it also means that its contribution
3 to overhead is probably a little bit higher than the
4 average for single piece so that you are making
5 equivalent the same piece of mail essentially in
6 single piece and in workshared, but there's a much
7 wider diversity of types of letter in single piece
8 than there is in workshared.

9 Also, my understanding of the Postal
10 Service's proposal, and perhaps I am misunderstanding
11 the Postal Service's proposal here, is that you're
12 also looking to equate these including the flats and
13 parcels costs and there's a much different
14 distribution of flats and parcels in single piece than
15 there is in workshared so that that impacts the
16 comparison once you've aggregated everything out.

17 Q Okay. I'd like to move on to a new topic,
18 carrier route mail. Now, your proposal parallel's the
19 Postal Service's proposal as I understand it. You're
20 not proposing a rate for carrier routes?

21 A That's correct.

22 Q Okay. Do you know the number of pieces of
23 carrier route mail? I'm assuming that would be test
24 year before rates.

25 A I mean, I've looked at it in the IPW, but I

1 don't remember offhand what it is. It's relatively
2 small. It's part of the workshare total amount
3 totalling.

4 Q Would 676 million be approximately correct
5 subject to check?

6 A Subject to check I'd accept that.

7 Q To what rate category would you expect these
8 pieces to migrate?

9 A I assumed they went to five-digit, but I
10 think that was simply because that was the same
11 assumption the Postal Service was making as I recall
12 I didn't do a careful study as to whether the carrier
13 route would actually necessarily qualify for five-
14 digit.

15 Q Let's assume that it does migrate to five-
16 digit. Did you do an analysis of what percentage
17 increase under your proposal that these pieces would
18 have?

19 A No. I did not look at that weighted average
20 number.

21 Q Subject to check, 10.7, would that --

22 A That could be possible. Certainly.

23 Q Did you take this into consideration when
24 you were setting the five-digit rate?

25 A I did not.

1 Q Now, your proposal lowers the discounts for
2 all automation rate categories and I believe MMA may
3 have had an exhibit which dealt with that. Is that
4 correct?

5 A I believe when they gave it to me it was
6 Exhibit No. 2, but I believe it's now Exhibit No. 3.

7 Q I have it as Exhibit No. 3.

8 A Okay.

9 Q Okay. You've confirmed these numbers as I
10 remember your testimony, correct?

11 A I looked at the discounts and confirmed
12 those. I don't recall whether or not I checked the
13 math or not.

14 Q Okay. Well, but the eight to 10 percent
15 reduction in discounts?

16 A I don't have any reason to question that.

17 Q Okay. Now, the nonauto presort, well, we
18 might as well go instead of having you pull from
19 memory, and I believe it's MMA-9(c), there is some
20 discussion of the nonauto category.

21 A I'm at 9(c). MMA-9(c)?

22 Q Right. Right.

23 A Okay.

24 Q You state there that you thought
25 machinability is not part of the requirements for the

1 nonauto presort rate. Is that correct?

2 A I think that I did say that because there
3 are nonmachinable mail in the nonauto presort
4 category.

5 Q Do you know what other characteristics
6 differ between the nonauto presort and the automation
7 rate categories?

8 A The nonautomation presort doesn't have to
9 have a barcode on it.

10 Q So the nonauto presort as compared to the
11 automation categories would be the most expensive to
12 handle then, wouldn't it not?

13 A I would expect it to be. Certainly the
14 nonmachinable parts of it would be.

15 Q Well, wouldn't the machinable parts also be
16 more expensive generally?

17 A Well, there does seem to be some question
18 about that due to the mail flow models not being
19 entirely consistent on that point.

20 Q Well, I thought your testimony earlier, and
21 please characterize it correctly if I don't have this
22 exactly right, was that with worksharing and the
23 greater depth of worksharing you avoided more
24 processes basically, that the Postal Service was
25 avoiding more processes, so with a nonautomation piece

1 you testified just now that you would need a barcode
2 so at a minimum these pieces would need to --

3 A They would need to have a barcode added to
4 them.

5 Q Right. The automation categories would not
6 need a barcode, correct?

7 A That's correct.

8 Q Not need a barcode to be added, right?

9 A (Nonverbal response.)

10 Q Now, you've recommended in your rate design
11 no increase for the nonauto presort. Is that correct?

12 A That's correct.

13 Q Did you know that the Postal Service will be
14 easing the sortation requirements for the nonauto
15 presort? Currently a three-digit sort is required if
16 it can be done and will no longer be required.

17 A I did not know that the Postal Service was
18 going to make any changes to nonauto presort.

19 Q It was part of Mark McCrary's testimony, but
20 subject to check that it's no longer required.

21 A I will accept that you know Mr. McCrary's
22 testimony better than I do. Yes.

23 Q Right. So what is the volume affect of your
24 proposal on nonautomation? If I read the numbers
25 correctly it yields about a 30 percent increase.

1 A It does. I used Mr. Thress' models to
2 determine what the volume change was because those are
3 the models that are underlying the Postal Service
4 proposal and we needed to use a consistent set of
5 models. Mr. Thress' model indicates that when you
6 make the changes that I made you get an increase in
7 the nonauto presort volumes and it's a relatively
8 large increase.

9 Q Now, with respect to the automation and the
10 impact of your rate design on the automation volumes
11 you're recommending a decrease in discounts of I
12 believe again from MMA Exhibit No. 3 that was about
13 eight to 10 percent and my calculation is this would
14 lead to a reduction in the automation mail of about
15 1.2 billion pieces. Subject to check is that
16 accurate?

17 A Again, I used Mr. Thress' models to make
18 that estimate. That sounds about right.

19 Q So the sum total of your rate design is that
20 we're going to have a 30 percent increase in mail of
21 the presort category that's the most expensive to
22 handle and a reduction of the mail that's the least
23 expensive to handle?

24 A That's correct

25 Q Now, in reviewing your testimony I then went

1 back and I was looking at some of the Commission's
2 rate decisions for the last 10 years. Would it
3 surprise you to learn the Commission has never
4 recommended three or five-digit rates higher than the
5 Postal Service proposal in its request?

6 A It would not surprise me. No.

7 Q Now, what would happen to the revenue to be
8 obtained from first-class if the Commission were to
9 recommend your 41 cent rate, but with the presort
10 rates that the Postal Service has proposed?

11 A The revenue would be too low or would
12 certainly be below what was requested.

13 Q Because you've proposed a one cent
14 reduction, is that correct, in the single piece rate
15 from the Postal Service proposal?

16 A Correct. The Postal Service proposal for
17 single piece rate was 42 cents and mine is for 41
18 cents.

19 Q Then also trying to figure out what is a
20 penny worth. Basically there's a lot of ways at
21 looking at it, but actually let me try this. If the
22 Commission were to accept the 41 cent, kept the
23 discounts as the Postal Service proposed would be the
24 same, subject to check would a penny be worth in
25 affect about \$800 million?

1 A I haven't made that calculation, so subject
2 to check I would accept your calculations, but I
3 haven't made that estimate.

4 Q Right, but there's about, what, 85 billion
5 or so pieces in first-class mail?

6 A Something roughly I think to that.

7 Q So to circle back should the Commission
8 recommend the 41 cent rate and decide not to increase
9 the presort rates recommended by the Postal Service
10 that would mean they would need to cover the revenue
11 in some other ways. Is that correct?

12 A I think that it would leave you short of
13 revenue without doing the calculations, but that's my
14 understanding, yes, as I understand your hypothetical

15 Q Then I suppose the question is raised well,
16 where would they get the revenue from? In past
17 decisions sometimes there's been a discussion about
18 whether it should be in the additional ounce rate.
19 Would that be one place to get the revenue?

20 A Sometimes that is used as a balancing
21 mechanism or has been in the past as I understand it.

22 Q What about getting the revenue from other
23 classes of mail? For example standard mail?

24 A Presumably the Commission could make that
25 decision, but of course then that also makes other

1 changes to the Postal Service's **proposal** about all the
2 classes of mail.

3 MS. MCKENZIE: Mr. Chairman, that's all the
4 Postal Service has at this time and I'm five minutes
5 ahead of schedule.

6 CHAIRMAN OMAS: I was just going to
7 congratulate you. You did an excellent job, Ms.
8 McKenzie. Thank you very much. With that I think we
9 will take a lunch break and let's come back at say
10 1:15.

11 (Whereupon, at **12:12** p.m., the hearing in
12 the above-entitled matter was recessed, to reconvene
13 at **1:15** p.m. this same day, Tuesday, October **24**,
14 2006.)

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1 Whereupon,

2 LAWRENCE G. BUC

3 having been duly sworn, was called as a
4 witness and was examined and testified as follows:

5 CHAIRMAN OMAS: You may be seated.

6 THE WITNESS: Thank you.

7 CHAIRMAN OMAS: Mr. Scanlon?

8 MR. SCANLON: Thank you, Mr. Chairman.

9 (The document referred to was
10 marked for identification as
11 Exhibit No. PB-T-2.)

12 DIRECT EXAMINATION

13 BY MR. SCANLON:

14 Q Mr. Buc, do you have before you two copies
15 of a document entitled Direct Testimony of Lawrence J.
16 Buc on behalf of Pitney Bowes, Incorporated?

17 A Yes, I do.

18 Q Designated as PB-T-2?

19 A Yes.

20 CHAIRMAN OMAS: Mr. Scanlon, your mic is not
21 on. You need to turn your mic on.

22 MR. SCANLON: I believe it is on.

23 CHAIRMAN OMAS: It's on now. Okay. Thank
24 you.

25 //

1 BY MR. SCANLON:

2 Q Was this testimony prepared by you or under
3 your direction?

4 A It was.

5 Q If you were to give your testimony orally
6 today would it be the same?

7 A With several minor exceptions.

8 Q Okay.

9 A There are transcript citations that we have
10 included that were not available at the time of the
11 testimony. I can provide those if you'd like them or
12 we have corrected copies to correct the six transcript
13 cites that weren't available and we also have seven
14 minor typographical corrections which I could go
15 through if you'd like me to.

16 Q Please go ahead.

17 A Okay. On page 9, line 14, after the word
18 Postal Service instead of a comma we need a period.
19 On line 9, page 17, where it says costs no we should
20 insert have, so it should say costs have no. On page
21 10, line 11, the word proportionate should be changed
22 to proportional. On page 15, line 7, the number 4.556
23 should be changed to 4.525.

24 On page 25, line 2, the words mod 16
25 dispatch should be changed to mod 17 dispatch. On

1 page 29, Table 7, the number .268 should be changed to
2 .267. Also on page 29, Table 7, the source that said
3 PB-LR-L-1 at Tab 5 should be changed to say PB-LR-L-1
4 Tab 4. Those are the only changes.

5 Q Okay. Thank you. Are there any library
6 references associated with your testimony?

7 A There are.

8 Q Okay. Those library references, is that
9 Library Reference PB-LR-L-1?

10 A It is.

11 MR. SCANLON: Mr. Chairman, at this time
12 I'll provide the reporter with two copies of the
13 testimony and ask that they be admitted into evidence
14 along with the associated library references as the
15 testimony of Lawrence G. Buc.

16 CHAIRMAN OMAS: Are there any objections?

17 (No response.)

18 CHAIRMAN OMAS: Hearing none I will direct
19 counsel to provide the reporter with two copies of the
20 corrected direct testimony of Lawrence G. Buc. That
21 testimony is received into evidence. However, as is
22 our practice it will not be transcribed.

23 //

24 //

25 //

1 (The document referred to,
2 previously identified as
3 Exhibit No. PB-T-2, was
4 received in evidence.)

5 (The document referred to was
6 marked for identification as
7 Exhibit No. PB-T-2.)

8 CHAIRMAN OMAS: Mr. Buc, have you had the
9 opportunity to examine the packet of information
10 designated written cross-examination presented to you
11 in the hearing room this afternoon?

12 THE WITNESS: Yes, I have.

13 CHAIRMAN OMAS: If those questions contained
14 in that packet were posed to you orally today would
15 your answers be the same as those previously provided
16 to us in writing?

17 THE WITNESS: They would be.

18 CHAIRMAN OMAS: Are there any corrections or
19 additions you would like to make to those answers?

20 THE WITNESS: No.

21 MR. HESELTON: Mr. Chairman?

22 CHAIRMAN OMAS: Yes?

23 MR. HESELTON: Frank Heselton for the Postal
24 Service. There were two interrogatories' responses,
25 Nos. 26 and 27, which were filed after the packet was

1 assembled. I'm just checking to see if those two made
2 it into the packet that Mr. Buc has adopted at this
3 point or whether we need to add them.

4 THE WITNESS: They're both in here.

5 MR. HESELTON: Nos. 26 and 27?

6 THE WITNESS: Nos. 26 and 27 are both in
7 here.

8 MR. HESELTON: Both there. Thank you very
9 much.

10 THE WITNESS: You're welcome.

11 CHAIRMAN OMAS: Counsel, would you please
12 provide two copies of the corrected designated written
13 cross-examination of Witness Buc to the reporter?
14 That material is received into evidence. Consistent
15 with our new practice it will not be transcribed into
16 the record.

17 (The document referred to,
18 previously identified as
19 Exhibit No. PB-T-2, was
20 received in evidence.)

21 //

22 //

23 //

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25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PITNEY BOWES INC.
WITNESS LAWRENCE G. BUC
(PB-T-2)

Party

Interrogatories

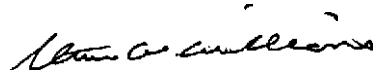
National Association of Presort
Mailers

USPS/PB-T2-8, 26-27

United States Postal Service

USPS/PB-T2-2-7, 9-25

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
PITNEY BOWES INC.
WITNESS LAWRENCE G. BUC (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPSIPB-T2-2	USPS
USPSIPB-T2-3	USPS
USPSIPB-T2-4	USPS
USPSIPB-T2-5	USPS
USPSIPB-T2-6	USPS
USPS/PB-T2-7	USPS
USPS/PB-T2-8	NAPM
USPSIPB-T2-9	USPS
USPSIPB-T2-10	USPS
USPSIPB-T2-11	USPS
USPS/PB-T2-12	USPS
USPSIPB-T2-13	USPS
USPS/PB-T2-14	USPS
USPS/PB-T2-15	USPS
USPS/PB-T2-16	USPS
USPS/PB-T2-17	USPS
USPSIPB-T2-18	USPS
USPSIPB-T2-19	USPS
USPSIPB-T2-20	USPS
USPS/PB-T2-21	USPS
USPSIPB-T2-22	USPS
USPSIPB-T2-23	USPS
USPS/PB-T2-24	USPS
USPSIPB-T2-25	USPS
USPSIPB-T2-26	NAPM
USPS/PB-T2-27	NAPM

USPS/PB-T2-2. On page 7 of your testimony, lines 17 to 20, you state “the Postal Service has failed to improve its models in other important respects and has made one change that seriously degrades **the** accuracy of the model (the unexplained and unprecedented exclusions **of** delivery costs).”

- a. Please confirm that machinability is the one mail characteristic that has a quantifiable impact on delivery costs. If you cannot confirm, please explain.
- b. Please confirm that machinable picccs would be dispatched to delivery units with the Delivery Point Sequence (DPS) mail, while **the** nonmachinable mail picccs would not. If you cannot confirm, please explain.
- c. Please confirm that DPS percentages that have been calculated in the past were a byproduct of **the** fact that acceptance rates were assigned to each automation operation. If you cannot confirm, please explain.
- d. Have you conducted any studies which provide evidence to suggest that **DPS** percentages actually vary among the machinable rate categories? If yes, please describe each study and provide all notes, data files, **reports**, and other documents that relate to each study.

RESPONSE

- a. Not confirmed. While machinability has a quantifiable impact on delivery costs, so, too, do other characteristics of the mail piece including, but not limited to, shape, weight, and address quality.
- b. Confirmed.

- c. Confirmed.
- d. No. The fact that DPS percentages vary among the machinable rate categories is a product **of** the Postal Service's cost avoidance model for First-class Automation Letter mail. Under the model, pieces that are not accepted **in** an automation sort are processed manually and each sort **has** an acceptance **rate less** than 100 percent. Given that MAADC letters, for example, go through more sorts than 5-digit mail, MAADC letters will have a lower DPS percentage and a higher delivery cost.

USPS/PB-T2-3. Please refer to your Library Reference PB-LR-L-1 under PB analysis of cost pools.

- a. Please define "Thought Experiment" proportional cost pools.
- b. Please define "Thought Experiment" fixed cost pools.
- c. Have you conducted any econometric, operational, or other studies supporting your "Thought Experiment" cost pool classifications? If so, please provide all notes, data files, reports, and other documents that relate to these studies.

RESPONSE

- a. "CRA Thought Experiment" proportional cost pools are those cost pools which could be classified as proportional based on my thought experiment. As I explain in my testimony, I did not classify all of these pools as proportional, but only those which also appeared proportional based on operational analysis or which were classified as proportional by the Postal Service.
- b. "CRA Thought Experiment" fixed cost pools are those cost pools which could be classified as fixed based on my thought experiment.
- c. The "Thought Experiment" itself is a study. All data are provided in my Library Reference. As I explained in my testimony, the results are supported by the USPS attribution and distribution theory and by the operational analysis I discussed, which is based on USPS-LR-L-1 and the mail flows and operational analysis USPS witness McCrery provided in response to PB/USPS-T42-5.

USPS/PB-T2-4. Please refer to your Library Reference PB-LR-L-I under PB analysis of cost pools.

- a. Do you consider your “Thought Experiment” cost pool classification to be independent of mail flow models or dependent on mail flow models?
Please explain your answer fully.
- b. Please discuss how switching fixed cost pools to proportional cost pools impacts mail flow models?
- c. Have you visited USPS mail processing plants to observe tasks underlying each cost pool? If so, for each visit, please state what facility you observed, date and time of the observation, and the operations (including MODS operations numbers) observed. In addition, please provide copies of any notes, reports, or other documents related to the observation.
- d. Please see witness Abdirahman’s response to POIR No. 4. question 11(a) in Docket No. R2005-1. Please provide a similar description and rationale for your categorization of each of the letter cost pools. Please identify and explain any pools that have been combined, separated, created, eliminated, renamed, or otherwise changed in definition since the R2000-1 case.

RESPONSE

- a. The thought experiment is independent of the mail flow models. The mail flow models consider only a generalized flow through the system. For example, they do not reflect that a letter may occasionally be sorted in flat pools or even in parcel pools.

- b. Switching a cost pool from fixed to proportional (or from proportional to fixed) does not affect the mail flow models.
- c. Although I visited USPS mail processing plants during the time period over which I developed this testimony, I did not visit these plants with the purpose of observing tasks underlying each and every cost pool. On August 16, 2006, I visited the USPS HASP facility in Landover, Maryland. On August 24, 2006, I visited the USPS P&DC facility in Gaithersburg, Maryland. Notes from the August 16 site visit are attached. I do not have any other notes, reports, or other documents related to these observations. I did not observe anything during these visits that conflicts with my testimony.
- d. Please see PB-LR-L-I, Tab 5 and the discussion from pages 14 to page 30 of my testimony. Please note that I have worked only with the cost pools in this case.

Surface Transportation Hub

Pipeline Business -

Manager of MHSB 1996 - 10 years anniversary

Here since December or 97

30 docks 300 trailers 85 employees

Surface Transfer Centers - almost 2000
them in network. Charlotte is September
then Memphis

almost cross dock - some containers, flatbeds.

Sec 2 -

mail from world comes here

e-truck dock or to be 1/2 price -

air freight plants - some to be
operating

20 hours only close only at 4 pm
Monday

all highway contractors

containers are separated by shape

mark 500pr (61) from points 924J

Christmas, have everything

December 24 hours

at Christmas (Clewett m. 1) daily

USPS/PB-T2-5 Please refer to your testimony at page 2 and page 4 where you discuss the Efficient Component Pricing Rule (ECPR).

- a. Does ECPR provide any guidance as to which characteristics of mail should be distinguished for pricing purposes? Please explain.
- b. Does ECPR provide any guidance regarding whether there is a distinction between cost avoidance and cost difference? Please explain.
- c. Please confirm that the de-linking proposal permits the consideration of cost differences between First-class Mail single-piece and First-class Mail presort letters, even when such differences were not caused by presorting, per se. If you do not confirm, please explain.
- d. Which of the rate-setting factors of the Postal Reorganization Act refer to efficiency?
- e. For each rate-setting factor of the Postal Reorganization Act, Sec. 3622 (b), please indicate whether the factor supports setting of prices not necessarily consistent with efficiency goals, and explain your conclusion

RESPONSE

- a. ECPR says that rate differences should equal cost differences.
- b. The principles supporting ECPR make no distinction between cost differences and cost avoidances and, therefore it, should be applied not just to worksharing but **also** to other cost causative characteristics of a mail piece like shape, weight, distance-related costs, address quality, and sales channel.
- c. Confirmed.

- d. None of the nine factors of the **Act** explicitly reference "efficiency;" nor do any of the factors require the development of inefficient rates.
- e. Please see **my** response **to** (d) above.

USPS/PB-T2-6 Please **refer** to **your** testimony at pages **4** and **5** where you discuss ECPR and the Commission's embrace of the concept. Please confirm that setting a discount at more than **the** cost avoided would be an inefficient result. If you do not confirm, please explain.

RESPONSE

Confirmed that setting discounts either higher **or** lower than cost differences or cost avoidances leads to productive inefficiency. **Also** please note that **costs** must be properly measured for ECPR to produce its beneficial effects.

USPSIPB-TZ-7 Please refer to your testimony at page 13, lines 7-17, where you discuss the exclusion of the delivery cost differences associated with DPS percentages previously provided in the letter models.

- a. Please provide a methodological approach to identifying the presort level of a letter that is rejected from a piece of letter-sorting equipment.
- b. Please provide a methodological approach for identifying the presort level(s) of letters that are not contained in the DPS bundle provided to the carrier.

RESPONSE

(a. and b.) **As I** explain in my testimony, delivery unit cost differences are a natural consequence of USPS witness Abdirahman's cost model so I did not have to develop a method for identifying either the presort level of a letter that is rejected from a piece of letter-sorting equipment or the presort level(s) of letters that are not contained in the DPS bundle provided to the carrier.

USPS/PB-T2-8 Please confirm that classifying cost pools as “proportional” does not, in and of itself, establish the degree to which or the way in which the costs in those cost pools vary with presort levels. If you do not confirm, please explain.

RESPONSE

Confirmed that calling a cost pool proportional (or fixed) does not make it so. **As** I explain in my testimony, I rely on several methods to determine whether a pool is truly proportional rather than just declaring that it is. Calling a pool proportional also does not, in and of itself, establish the degree to which or the way in which costs in proportional pools vary with presort level.

USPS/PB-T2-9 Please refer to your testimony at page 14, line 6, where you state that most **of** the costs in the cost pools classified as fixed “actually vary with the presort level.”

- a. Please confirm that once you have re-classified the cost pools as proportional, you performed no study to determine the degree to which any **of** the costs in any of the re-classified cost pools actually varied with presort level. If you do not confirm, please explain and provide the analysis demonstrating the degree to which and way in which the re-classified costs **vary** with presort level.
- b. If you do **not** confirm part a above, please provide the functional **form** of the equation used by you to determine the degree to which each cost pool varied with presort level.

RESPONSE

- a. **As I** explain in my testimony, I assume that the pools I have classified as proportional vary with presort level in the same way as those proportional pools that the Postal Service has modeled. In fact, this is the same assumption that the Postal Service makes for the three cost pools – IOPBULK, IOPREF, and IPOUCHNG - newly classified as proportional for automation mail in this case. Assumptions **of** this sort are fairly common in postal costing and are used to distribute very large amounts of costs. In mail processing cost pools, the Postal Service assumes that non-handling tallies can be distributed to class and sub-class on the basis of the direct and mixed mail tallies. Logic also supports this. For piggyback costs, the Postal Service assumes that the piggybacked costs are distributed to class and subclass in the same way as are the costs on which they

are piggybacked. I have made the same sort of assumption because it is logical and because it is clearly superior to assuming that all of these costs are fixed.

- b. Not applicable.

USPS/PB-T2-10 Please refer to your Tables 4 and 5

- a. Please confirm that, of the **38** cost pools you examined, the ratios of the single-piece letter unit cost to the automation letter unit cost range from less than 1 to over 5. If you do not confirm, please explain.
- b. Please confirm that **20** of the cost pools had a ratio of single-piece unit cost to automation letter cost of between 2 and 5. If you do not confirm, please explain.
- c. Please confirm that simple examination **of** these ratios does not suggest that a single ratio exists for the ratio **of** single-piece unit costs to automation unit costs. If you do not confirm, please explain.

RESPONSE

- a. Confirmed for Table 4. Note that Table 4 explores only the ratios in the fixed pools. Table 5 examines costs in the 13 pools classified as proportional by the Postal Service.
- b. Confirmed for Table 4. Note that Table 4 explores only the ratios in the fixed pools. Table 5 examines costs in the 13 pools classified as proportional by the Postal Service.
- c. Confirmed that different pools displayed different ratios as shown in Table 4. Note that Table 4 explores only the ratios in the fixed pools.

USPS/PB-T2-11 Please refer to your testimony at page 16, lines 11-17 and page 17, lines 1-3 where you discuss the reasons for cost differences between single-piece and automation letters.

- a. Please confirm that the proportion of single-piece letters that are forwarded or returned is lower than the proportion of presort or automation letters that are forwarded or returned. If you do not confirm, please explain.
- b. Please confirm that, as shown in the testimonies provided in support of the Negotiated Service Agreements for Capital One and other companies using First-Class Mail for advertising purposes, the costs of forwarding and returning letters are significantly more than the costs of providing mail processing service to an automation letter that is not forwarded or returned. If you do not confirm, please explain.
- c. Please confirm that, independent of the depth of presort, automation mail is more likely to be entered by large, relatively sophisticated mailers and single-piece letters is (sic) less likely to be entered by large, relatively sophisticated mailers. If you do not confirm, please explain.

RESPONSE

- a. Confirmed for FY 2004. Please see Table 2.3 of USPS LR-L-61, Final Disposition of Volume of UAA Mail by Class of Mail/Rate Category –FY 2004.
- b. Not confirmed. The NSAs do not show that Capital One and other companies use First-class Mail for advertising purposes. Total mail processing costs for First - Class Mail letters are larger, by definition, than the total mail processing costs of forwarding and returning these letters.

- c. Large, sophisticated mailers will likely almost always enter some single-piece letter mail with their mailings. It also seems likely that large relatively sophisticated mailers are responsible for a larger percentage of the presort letter mail than of the single-piece letter mail.

USPS/PB-T2-12 Please confirm that the distribution keys you describe in your testimony at pages 19 and 20 as being used by witnesses Van-Ty Smith and Smith and Bozzo have been developed as a result of analysis. **If** you do not confirm, please identify how you believe those keys were developed.

RESPONSE

As a clarification, pages 17 – 20 of my testimony discuss why witness Bozzo's attribution methods (and not distribution methods) show that cost **pools** are proportional. Witness Smith is not mentioned at all on pages 19 and 20, the only reference to him is on page 29. Confirmed **that** the distribution keys I describe on pages 19 and 20 that witness Van-Ty-Smith develops and applies have a logical, rather than an empirical basis. Given that logic **is** a form of analysis, they have been developed as a result of analysis, but are without empirical basis

USPS/PB-T2-13 Please refer to your testimony at page 21, lines 12-14 where you describe the activity of sorting letters in a manual flat sorting operation and state that these costs "like all other piece handling costs, vary with the amount of worksharing performed."

- a. Please provide an empirical basis for this statement.
- b. Please confirm that the pieces found in manual flat sorting operations may have been damaged or for some other reason, such as a floppy leading edge, rejected from letter-sorting operations. If you do not confirm, please explain.

RESPONSE

- a. Witness Abdirahman's mail flow models show that piece handling costs for letters in letter cost pools vary with the amount of worksharing performed. This statement is a logical extension of that.
- b. Confirmed that pieces found in a manual flat sorting operation do appear there for some reason.

USPS/PB-T2-14 Please refer to your Table 6 listing the number of cost pools you consider to be anomalous.

- a. **Is** it your testimony that the more finely presorted a letter is, the less likely it is to wind up in an “unexpected facility”? If so, please provide the basis, empirical or otherwise for that position. If not, then please explain how and why one would divide these anomalous cost pools by presort level.
- b. **Is** it your testimony that the more finely presorted a letter is, the **less** likely it **is** to wind up mixed in with “unexpected shapes” or “unexpected classes”? If so, please provide the basis for that position. If not, then please **explain** how and why one would divide these anomalous cost pools by presort level.

RESPONSE

- a. Yes. The more finely presorted a piece is, the fewer operations it goes through: thus, it has a smaller chance of winding up in an “unexpected facility.”
- b. Yes. The more finely presorted a piece is, the fewer operations it goes through and the smaller chance it has of winding up mixed in with “unexpected shapes” or “unexpected classes.”

USPS/PB-T2-15 Please refer to your testimony at page 23 where you discuss preparation of pallets as it relates to the presort level of the mail.

- a. Please refer to lines 6-7 where you state that the “size of the mailing is generally related to the presort level of the letter trays: the larger the mailing, the greater the depth of presort.” Please confirm that the geographic dispersion of the mailing also has an effect on the depth of presort and the preparation of pallets. If you do not confirm, please explain.
- b. Please explain the difference between the operational activities associated with handling a pallet with 5-digit trays of letters and a pallet with Carrier Route trays of letters.

RESPONSE

- a. Confirmed.
- b. Assuming that the pallet with 5-digit trays has trays all of which destinate at the same ADC (a reasonable assumption because mailers make pallet separations), the mail flows for the pallet with 5-digit trays of letters and a pallet with Carrier Route trays of letters both destinating in the same 5-digit zip would be identical until the incoming secondary sort operations. **At** the incoming secondary sort operations Carrier Route trays will usually go into different schemes than 5-digit trays.

USPS/PB-T2-16 Please *see* lines 14-15 of page 23 that state, "when mailers use PostalOne! the Postal Service avoids transportation and mail processing costs."

- a. Please explain how **use** of PostalOne! reduces transportation costs.
- b. Please explain how the use of PostalOne! varies by presort **level**.
- c. Please explain how the use of PostalOne! by varying presort level will avoid transportation cost *by presort level*.

RESPONSE

- a. In its response to MMA/USPS-T21-33 in R2005-1, which the Postal Service confirmed is still valid in this case in response to PB/USPS-T22-11, the Postal Service explained **how** the use **of** Postal One! saves costs, as follows. "[b]ecause mailers assign and separate letter trays in their production facilities, Postal service savings come from reduced tray processing, reduced tray handlings, and diversion of mail for air transportation to surface transportation."
- b. Mailers with small amounts of mail are much more likely to make MAADC and AADC trays while mailers with more mail are more likely to make 3-Digit and 5-Digit trays. Given that PostalOne! is cost effective only for larger amounts of mail, mailers making more finely sorted trays are more likely to **use** PostalOne! than those making **less** finely sorted trays.
- c. My testimony does not discuss presort levels and avoided transportation costs.

USPSIPB-T2-17 Please refer to lines 18-19 of page **24** of your testimony where you state that “letters in 5-digit **trays** on pallet separations could bypass the tray sorting costs at the origin plant.” Please provide **an** estimate **of** how often this happens, and the basis of **your** estimate.

RESPONSE

I do not have an estimate.

USPS/PB-T2-18 Please refer to lines **5-6** of page **25** of your testimony where you state that “Originating letters in mixed **AADC** trays can be processed in four sort schemes and require two or three strapping and/or sleeving activities.”

- a. Please provide **an** estimate of how often originating letters in mixed **AADC** trays are processed in four sort schemes, and the source of your estimate.
- b. Please provide an estimate of how often **two** strapping and/or sleeving activities are required for this mail, and provide the source of your estimate.
- c. Please provide an estimate of how often three strapping and/or sleeving activities are required for this mail, and provide the source of your estimate.

RESPONSE

(a. – c.) I do not have an estimate

USPS/PB-T2-19 Many of the examples provided in your testimony, for example on page 25, refer to the difference between mixed AADC letters and 5-digit letters.

- a. Please confirm that the cost analysis and ratesetting activities involve distinguishing among all levels of presort.
- b. Please explain how the examples provided, for example on page 25 of your testimony, would permit distinction among all of the presort levels.

RESPONSE

- a. Confirmed.
- b. I provided examples referring to the differences between mixed **AADC** letters and 5-digit letters for ease of exposition and to establish the general principle that costs vary by presort level. The examples show the differences between the presort level. My Library Reference provides the details of how I calculated the cost avoidances between the presort level.

USPS/PB-T2-20 Please refer to page 26, lines 22-23 of your testimony where you state that “originating letters in 5-digit trays could bypass the platform at the destinating **AADC** altogether.” Please provide an estimate of **how** often this occurs, and provide **the** basis **for** your estimate.

RESPONSE

I do not have an estimate.

USPS/PB-T2-21 Please refer to page **27**, line 21 of your testimony where you state, “the **costs** of allied labor activities vary to some degree with presort level.” To what degree do they vary? Please provide the basis **for** this estimate.

RESPONSE

I do not have an estimate

USPS/PB-T2-22 Please refer to page 28, line 9 of your testimony where you state that “it is intuitive that some miscellaneous and support operations are proportional to distribution operations.”

- a. Is it your testimony that the Commission should develop cost avoidance estimates based solely on intuition?
- b. Please specify the “some” miscellaneous and support operations.
- c. Please provide the proportional factor to which those support activities relate to distribution operations and provide the basis for that estimate.

RESPONSE

- a. The Commission should review any cost or cost avoidance estimates using the best information, **data**, and analysis available. More data and more analysis is always preferable, yet the Commission does approve cost methods that are not grounded in **data** but are grounded in logic. **As** an example, there is no data showing that the distribution of the cost of non-handling tallies follows the distribution of the cost of handling and non-handling tallies, yet the Commission accepts the general proposition.
- b. Please see page **28, line 15** of my testimony.
- c. I used a factor of **1** based on the attribution and distribution of these pools.

USPS/PB-T2-23 Please refer to page 29 of your testimony at lines **11-14** where you quote witness Smith as saying that “it would be better to be able to model the non-modeled activities in order to accurately relate these costs to categories.” Please confirm that you have not modeled the costs for the cost pools that you propose to shift to the “proportional” classification.

RESPONSE

I have not modeled them but I have provided multiple reasons why they are proportional

USPS/PB-T2-24 Please refer to your testimony at page 33, lines 3-4 where you state that setting discounts appropriately induces "the optimal amount and mix of worksharing activity provided by mailers and third-party service providers."

- a. **Is** it your testimony that the cost estimates and rates proposed in your testimony do a superior job of "inducing the optimal amount and mix of worksharing activity provided by mailers and third-party service providers"? If not, please explain why the Commission should adopt your proposals.
- b. **If** your response to part a is affirmative, please describe the shifts in mail mix which will result from the impact of your proposals on mailers behavior.
- c. If you did not develop estimates of the shifted mail volumes, please explain how you developed your revenue leakage and financial impact analysis.

RESPONSE

- a. **Yes.**
- b. Although I have not developed quantitative estimates of the shift in mail mix that will occur as compared to after rates volumes estimated by the Postal Service, it will be small. I have proposed exactly the same 3-Digit rate as the Postal Service, my proposed 5-digit rate is .4 cents smaller than that proposed by the Service, my AADC proposed rate is .3 cents higher, and my proposed AADC rate is 1.2 cents higher.
- c. For simplicity of calculations, I assumed that the volumes would not shift or change in response to my proposed rates. Given the small differences between

my proposed rates and those of the Service, I would assume that the changes in revenue leakage would not be material.

USPS/PB-T2-25 **Please** refer to section IV.D of your testimony concerning cost pool classifications.

- a. Please confirm that in Docket Nos. R2000-1, R2001-1, R2005-1 and Docket No. R2006-1, the Postal Service First-Class Mail presort cards/letters cost witnesses classified cost pools as proportional if those cost pools represented tasks that were actually included in the mail **flow** models. If not confirmed, please explain.
- b. Please confirm that the Commission relied on the same general proportional **cost** pool classification methodology as the Postal Service in Docket Nos. R2000-1, R2001-1, and R2005-1. If not confirmed, please explain. (Please note that even though Docket Nos. R2001-1 and R2005-1 involved settlement agreements, the Commission did place cost models on the record that were used for final adjustments.)

RESPONSE

- a. Not confirmed. In R2006-1, it does not appear that costs are explicitly modeled for 1OPBULK, 1OPPREF, and IPOUCHNG. Nonetheless, the modeling method used implicitly distributes the costs of these activities to presort levels in exactly the same ratio **as** the costs **for the** modeled activities. This is the same approach I have used for the activities that were not explicitly modeled.
- b. I do not know what is meant by “the same general proportional cost pool classification methodology.” Even assuming the methodology is the same, it does not follow that **further** improvements are impossible. For example, the Service has improved its estimate by classifying three pools as proportional and then

distributing them on the **basis** of the modeled costs. The Commission accepts changes in ***cost*** methods if they **are** supported on the record.

USPS/PB-T2-26

Please refer to your response to **USPS/PB-T2-2a** where you state that “While machinability has a **quantifiable** impact on delivery costs, so, too, do other characteristics of ~~the~~ **mail** piece including, but not limited to, shape, weight, and address quality.”

- a. Please ~~confirm that~~, with the exception of shape, none of the characteristics that you listed are explicitly identified and quantifiable in the models that previously were used to provide the **DPS** percentages that underlay the delivery cost differences by presort. If you do not confirm, please provide the reference to ~~the~~ part of the model where such impacts may be identified.
- b. Please confirm that differences in none of the characteristics that you listed in your response are known to be explicitly linked to the different levels **of** presort. If you do not confirm, please demonstrate the quantifiable impact of each of those characteristics on the costs of different levels ~~of~~ presort.

RESPONSE

- a. Confirmed that with the exception of shape, ~~none~~ of the characteristics that I listed are explicitly identified and quantified in the models that previously were used to provide the **DPS** percentages that underlay the delivery cost differences by presort. It does not follow, however, that these characteristics could not and ought not to be identified and quantified in the Service’s cost models.
- b. I have not studied whether or how differences in shape, weight, or address quality are linked **to** the different levels of presort.

USPS/PB-T2-27 Please refer to your response to **USPS/PB-T2-4a** where you state that the mail flow models “do not reflect that a letter may occasionally be sorted in flat pools or even in parcel pools” and your response to **USPS/PB-T2-4b** where you state that switching a cost pool from fixed to proportional does not affect the mail flow models.

- a. Please confirm that the costs associated with handlings in those “anomalous” or “unexpected” operations are included in the “fixed” costs which are added to the weighted proportional cost results from the mail flow models in order to tie to the full CRA mail processing cost. If not confirmed, please explain where those anomalous costs are found in the calculations of unit costs.
- b. Please explain how to determine the presort category of letters found in flat or parcel mail processing operations.
- c. Please explain how to determine what portion of the costs in the anomalous or unexpected cost pools should be distributed to each level of presort.

RESPONSE

- a. Confirmed that the Postal Service has included these costs in the fixed pools. Note that my testimony demonstrates why these cost pools should properly be classified as proportional and my costs also tie out to the full CRA mail processing costs.
- b. It is not necessary to determine the presort category of letters found in flat or mail processing levels for the purpose of calculating cost avoidances between the presort levels as shown in my response to (c.) below. But one could do so with a sampling system.

- c. I distribute the costs of the anomalous and unexpected cost pools on the basis of the distribution of costs in the modeled pools. This is exactly the same approach that the Postal Service uses to distribute the costs of the three pools newly classified as proportional for automation mail in this case.

1 CHAIRMAN OMAS: Mr. Buc, you don't really
2 have to go real close to the mic. I think you can
3 sort of sit **up** straight --

4 THE WITNESS: Thank you, Mr. Chairman.

5 CHAIRMAN OMAS: -- your usual posture and
6 answer the questions. This now brings us to oral
7 cross-examination. Two participants have requested
8 oral cross-examination, the American Postal Workers
9 Unions, AFL-CIO, and the United States Postal Service.
10 That must be incorrect because it should be Pitney
11 Bowes instead of AFL-CIO.

12 Mr. Anderson?

13 MR. ANDERSON: Mr. Chairman, the APWU has no
14 questions at this time. We would like to reserve the
15 opportunity to ask a follow-up question if another
16 party cross-examines Mr. Buc.

17 CHAIRMAN OMAS: All right. Thank you, Mr.
18 Anderson.

19 MR. ANDERSON: Thank you, Mr. Chairman.

20 CHAIRMAN OMAS: Mr. Scanlon?

21 MR. SCANLON: No questions, Mr. Chairman.

22 CHAIRMAN OMAS: No questions.

23 Mr. Heselton?

24 MR. HESELTON: The Postal Service has some
25 questions, Mr. Chairman.

1 CHAIRMAN OMAS: Good.

2 CROSS-EXAMINATION

3 BY MR. HESELTON:

4 Q Good afternoon, Mr. Buc.

5 A Good afternoon, Mr. Heselton.

6 CHAIRMAN OMAS: We didn't want to let him
7 off that light.

8 BY MR. HESELTON:

9 Q In your testimony you describe the benefits
10 of efficient component pricing rules, do you not?

11 A I do.

12 Q You also provide an example in your
13 testimony in which you show the application or at
14 least the behavior of, if I can find it here, on pages
15 6 and 7 where you indicate that accurate cost
16 estimates are essential to efficient component pricing
17 rules abbreviated as ECPR.

18 What I'd like to do is take that
19 hypothetical example that you've shown on pages 6 and
20 7 where you've got three cost savings estimates, an
21 estimated costs avoided of 1.3 cents, a discount of
22 1.9 cents and an accurate cost avoidance of 2.3 cents.
23 Do you see those?

24 A I see that.

25 Q First of all I have a comment about the

1 example. I note that the discount is 1.9 cents
2 whereas the estimated costs avoided are 1.3 cents.

3 A Those numbers are correct.

4 Q So the discount is four-tenths of a cent
5 greater than the estimated costs avoided. Is that
6 correct?

7 A I actually think it's six-tenths of a cent
8 higher.

9 Q That's correct. Six-tenths of a cent. Even
10 more of a pass-through. Isn't that correct?

11 A It's correct.

12 Q Okay. So you've got a situation here where
13 your discount is about almost 150 percent?

14 A Rough numbers. Good enough.

15 Q Let's go with the example as it's stated,
16 though. You indicate here in your testimony that the
17 problem with a discount of 1.9 cents when the actual
18 accurate cost avoidance is 2.3 cents is that some
19 mailers who could presort will not be incentivized to
20 do that because it costs them more to prepare the mail
21 than the 1.9 cent discount provides, but that they
22 could in fact provide mail prepared to get a discount
23 if it were 2.3 cents equal to the actual costs
24 avoided. Is that correct?

25 A That's correct.

1 Q Let's take this example then and kind of
2 break it down and get it a little more applicable to
3 the situation facing the Commission today where there
4 are a number of different participants involved in
5 this equation, the first one of course being the
6 presort mailers.

7 As you indicate this is a situation which if
8 it existed would result in economic inefficiency
9 because you would have some presort mailers out there
10 who could prepare mail in such a way that it would
11 save the Postal Service money, but they're not
12 sufficiently incentivized to do that. Is that
13 correct?

14 A That's correct.

15 Q I take it that if you were a nonpresort
16 mailer this situation would not be particularly
17 bothersome to you because as a practical matter here
18 the Postal Service is saving if I've got this right
19 here four-tenths of a cent more than by avoided costs
20 generated by the mailer presorting than it is paying
21 out or that the rates are paying in the form of a
22 discount?

23 A I don't think that's necessarily correct.
24 If you're a presort mailer who could have presorted
25 for the right discount you would be upset. Perhaps if

1 you're a presort mailer **who** couldn't presort for the
2 right discount then perhaps you would not be upset.

3 Q Well, let's take the Postal Service next and
4 the situation facing it. I take it there that one
5 thing that the Postal Service would be giving up by
6 having a discount that didn't fully reflect the actual
7 cost savings from presortation would be there would be
8 perhaps a little bit smaller amount of volume than
9 might otherwise be the case if the rates were lower
10 and reflected that --

11 A That's one thing that they'd be giving up.
12 They'd also be giving up other things.

13 Q One thing that they wouldn't be giving **up**,
14 though, is the fact that they would be in effect
15 providing a discount through the rate structure of 1.9
16 cents when the cost savings are actually 2.3 cents,
17 and **so** the Postal Service is coming out ahead about
18 four-tenths of a cent in that it's achieving that
19 amount of savings greater than what the discount is?

20 A That's correct.

21 Q So there's an offset to some of these
22 things. To the extent that happens, too, then
23 nonpresort mailers also might look at the situation
24 from the perspective of this somewhat also benefits
25 them in that it takes at least some rate pressure off

1 of them?

2 A That's correct.

3 Q When the Commission looks at **this** situation
4 while it may in fact reflect economic inefficiency
5 it's not a situation which violates as far as you can
6 tell or is opposite to the procedures and the rules
7 under which the Commission is operated? I'm not
8 asking for a legal conclusion here, I'm asking for you
9 recognizing as an economist that there are things like
10 a break even requirement and so on that still can be
11 met even with a discount that does not fully reflect
12 the accurate costs saved.

13 A Well, that is correct. On several occasions
14 the Commission has expressed a preference for
15 efficient component pricing.

16 Q Let's take your example and make one
17 adjustment to it. What I'd like to do here is instead
18 of the 1.3 cents reflecting the estimated costs
19 avoided I'd like to make that the actual costs
20 avoided. So actual costs avoided are 1.3 cents, the
21 discount is 1.9 cents and then the estimated costs
22 avoided are **2.3** cents.

23 A Could you repeat that, please?

24 Q Certainly. I'd like to modify your example
25 so that instead of estimated costs avoided of 1.3

1 cents that would be the actual costs avoided. So
2 we're actually avoiding 1.3 cents of cost here through
3 mailer presorting and preparation. The discount is
4 set as you indicated originally at 1.9 cents and then
5 the estimated costs avoided however are **2.3** cents.

6 So we have a situation here where the
7 estimated costs avoided are actually greater than the
8 discount, less than 100 percent pass-through
9 obviously, but the actual costs avoided are less than
10 the discount granted. That's the situation I'd like
11 to explore.

12 A I think I've got it.

13 Q So in that case going back to the six-tenths
14 of a cent that you corrected me on in terms of being
15 the difference between the 1.3 and 1.9 this is a
16 situation where presort mailers would be incentivized
17 to provide worksharing in situations where the
18 discount was considerably greater than the costs
19 avoided by the Postal Service. Is that correct?

20 A That's absolutely correct.

21 Q This is a pretty good situation for presort
22 mailers to be in, isn't it?

23 A I'm not exactly sure how you mean that's a
24 pretty good situation for presort mailers to be in. I
25 would concur that the discount is bigger than the cost

1 avoided, but as far as whether that's a good situation
2 or not probably depends upon what kind of markets
3 they're in. If they're in reasonably competitive
4 markets all those get passed on to their consumers
5 anyhow.

6 Q At any rate they would be paying lower rates
7 than they would otherwise be paying if the discount
8 were set --

9 A They would be and that's an inefficient
10 outcome. That's absolutely correct.

11 Q I recognize that's an inefficient outcome
12 Now, in terms of the situation involved with the
13 Postal Service this would be a situation then where
14 the discount is it's believed to be based on a cost of
15 2.3 cents, the discount being 1.9 cents, but the costs
16 avoided as accurately measured are only 1.3 cents, so
17 in fact the Postal Service would be losing six-tenths
18 of a cent out-of-pocket on each piece that qualified
19 for this rate?

20 A Or they'd be giving away a discount six-
21 tenths of a cent bigger than the efficient discount.
22 Yes. They wouldn't be losing money, but they would be
23 giving away a discount bigger than necessary under
24 efficient component pricing.

25 Q Presumably they would be making this money

1 up at least in the long run from someplace else?

2 A Absolutely.

3 Q That is that this inefficiency would be
4 reflected in higher rates for the nonpresort mailers?

5 A Given that they need to cover their costs
6 that's correct.

7 Q I take it also that this might create
8 problems *for* the Commission itself, the Commission
9 being obligated under postal reorganization at Section
10 3621: Postal rates and fees shall provide sufficient
11 revenues so that the total estimated income and
12 appropriations to the Postal Service will equal as
13 nearly as practicable total estimated costs of the
14 Postal Service.

15 A I am familiar with that. quote.

16 Q I thought you would be. So to the extent
17 that a discount for worksharing efforts is granted to
18 the mailers that's greater than the actual costs saved
19 it would not be in accord with the prescription of
20 3621?

21 A I think we're past my limit here as an
22 attorney. I've always wanted to practice, but I've
23 never gotten to law school yet, so I think I'll defer
24 that to counsel.

25 Q That's fine. What I'm pointing to here, Mr.

1 Buc, is that if you grant a discount that's less than
2 the actual savings that are achieved as opposed to a
3 discount that is greater than the actual savings
4 there's not only economic inefficiency repercussions
5 from this, but there are other affects on the various
6 participants in the rate process that they would take
7 into account.

8 A Sounds reasonable. I would point out
9 however that it also runs the other direction. It's a
10 symmetric situation.

11 Q Let's explore that. What I'm suggesting
12 here is that you don't have quite the same symmetry if
13 the discount is not great enough than if the discount
14 is too great in that I'm suggesting that the affects
15 of that -- well, let's look at it this way. As a
16 practical matter the absolute true amount of savings
17 from mailer presorting can't be known as an exact
18 fact, can it? It's an estimate.

19 A As are most Postal Service cost estimates
20 Yes. That's correct.

21 Q Yes. So the various mailing groups and
22 participants in the process here before the Commission
23 are aware that these numbers are estimates and that
24 there are bands certainly around them and they address
25 this, don't they, in the positions that they take

1 before the Commission as they want to manage the risk
2 that the discount may be either too high or too low in
3 some fashion?

4 A Some mailers may do that, some intervenors
5 may do that --

6 Q Well, let's look at it this way then.
7 Presort mailers are looking at an estimate of savings
8 from presort behavior that has some uncertainty
9 surrounding it and looking at the range of uncertainty
10 would tend to feel more comfortable perhaps with a
11 discount that is larger rather than smaller, isn't
12 that correct, other things being equal?

13 A I can't speak for all presort mailers. My
14 testimony says that discounts should equal costs
15 avoided.

16 Q What your testimony says I take it is that
17 from an economic perspective what you want to do is
18 have the discounts equal the costs avoided? This is
19 to an economist a kind of point of Shangri-la, isn't
20 it?

21 A I wouldn't call it a point of Shangri-la. I
22 would say it's comporting with efficient component
23 pricing which many economists and people think is a
24 wonderful thing.

25 Q Moving beyond that and recognizing as our

1 discussion has indicated that there might be some
2 factors other than economic efficiency involved here
3 in the way a participant looks at this rule. For
4 example the Postal Service might take a look at the
5 situation and faced with a band of uncertainty around
6 an estimate feel a little more comfortable with a
7 discount that's actually a little bit less than the
8 calculated costs avoided if they had some discomfort
9 with that number, would they not?

10 A I'm having a little trouble with your
11 premise because the Postal Service files cost
12 information, they file rate schedules, they do file
13 standard deviations and confidence intervals, but I've
14 never quite seen them take it to that position that
15 when they're setting a rate for a certain class of
16 mail that they say well, this one has a pretty big
17 confidence interval and therefore we're not really
18 quite sure and maybe we ought to do a little bit here.

19 I mean, you do a little of that, but you
20 certainly don't do that everywhere.

21 Q Well, granted that it may not be done
22 everywhere, but certainly in the area of presort
23 discounts that situation has been managed by
24 suggesting a pass-through of less than 100 percent,
25 hasn't it?

1 A I think, in this case, except for the pass-
2 through from three to five digits, all of your pass-
3 throughs are 100 percent incrementally, if I'm
4 correct.

5 Q Yes. In this particular case, it would
6 appear that way. In fact, your testimony supports a
7 100-percent pass-through here, doesn't it?

8 A Yes.

9 Q Let's take a look, and here we're looking at
10 a zone of uncertainty that not only surrounds one
11 estimate, but there are, in fact, two estimates of
12 savings from presort behavior before the Commission,
13 at least two, in this case, aren't there? You have
14 provided one here in your testimony, or a set of them,
15 and the Postal Service itself has developed another
16 set, and they are not the same.

17 A That's correct.

18 Q And you still like your set today. Is that
19 right, as you testified?

20 A I like my set. Yes, I do.

21 Q And the Postal Service still likes its set,
22 too, and so --

23 A I wouldn't speak for the Postal Service, but
24 I presume that they would.

25 Q And so the Commission is faced here with a

1 range to deal **with** here when they take a look at these
2 estimates. What I would like to do now is turn to
3 some of the specifics that influence the magnitude of
4 the range that they are looking at.

5 Your testimony -- let me get you a page cite
6 here. On page 12, you indicate some distress that the
7 Postal Service has excluded delivery costs from its
8 cost model. Is that correct? Do you think that the
9 Postal Service should have taken into account how
10 alleged savings in delivery costs would be caused **by**
11 presort behavior? Is that correct?

12 A By the fact that the mail is presorted.
13 Yes, I do.

14 Q And in developing your testimony here, I
15 note that you cite to a number of transcript
16 references, which you have now provided, and some
17 interrogatory responses from various parties,
18 particularly the Postal Service. Is that correct?

19 A Transcript cites and only the Postal Service
20 interrogatories, yes.

21 Q In your review of interrogatories, there was
22 an interrogatory, MMA/USPS-T-42-7. I don't expect you
23 to remember the number, but I'm mentioning that for
24 the record. And in that interrogatory, Witness Kelley
25 was asked how presort level might impact the

1 probability of letters that can be DPS'd and,
2 therefore, impact the cost of delivery. That sounds
3 like it might be relevant to the issue that we're
4 discussing here, doesn't it?

5 A From your perspective, yes.

6 Q And, specifically, he was asked to confirm
7 that mixed AADC automation letters require more manual
8 processing than five-digit letters to prepare the mail
9 for delivery, and Witness McCreary was asked to
10 confirm that statement and, if not, explain it. Are
11 you familiar with Witness McCreary's response?

12 A You can refresh my memory.

13 Q Sure. Witness McCreary goes through and
14 cites three or four places where it would be nice to
15 have some data, but he concludes, last sentence:
16 "Empirically, however, I have no basis to suggest
17 whether the magnitude of the potential difference in
18 the amount of manual handling related to this
19 presumption is material or not."

20 So I take it what you would interpret what
21 Witness McCreary is saying here is that she doesn't
22 see any data that would permit a verification of the
23 delivery effect that you would like to see reflected
24 in the Postal Service's cost model. Is that correct?

25 A I think that's a fair reading of what

1 Witness McCreary said.

2 Q Now. in past cases, you were aware of the
3 fact that the Postal Service did produce an estimate
4 of effects from **DPS** on delivery costs, were you not?

5 A I know that they, at least, did that in the
6 last case.

7 Q And are you aware that the price Postal Rate
8 Commission was highly critical of the Postal Service's
9 development of their estimate of DPS savings.

10 A You could read me something to refresh my
11 memory on that, if you would like to.

12 Q I think I'll just leave it at that, Mr. Buc,
13 and let the record stand on that point.

14 Moving on to a situation involving a lack of
15 data to address some of the issues in developing these
16 estimates of cost savings from presortation behavior,
17 there are a number of interrogatories that the Postal
18 Service asked you in which they asked you for whether
19 you had certain kinds of data, enumerating what these
20 are, that might be helpful in developing these
21 estimates, and here I have in mind the following
22 interrogatory numbers: 12, 13, 17, 18, 20, 21, and
23 23.

24 Now, I could take these one by one and go
25 through the question and indicate, do you have such-

1 and-such data, and indicate your response, either, no,
2 I don't have it; it's not available, or I didn't have
3 it, but I did something else. I assumed this, or I
4 used a logical approach, or I would just like to take
5 them all collectively and say that, generally, what
6 these interrogatories show is that for the specific
7 types of data that would be related to developing
8 these cost estimates that you were asked about, there
9 really aren't data available for the items enumerated
10 in these interrogatories. Is that correct?

11 A I think you get to make the rules here. You
12 can go whichever direction you would like to.

13 Q Well, I think, rather than go through the
14 Chinese water torture experience of one interrogatory
15 after another, I would like to handle them as a group.

16 A And would that torture be for me or for you?

17 Q I'm hoping it would benefit not only us but
18 everybody in the room, Mr. Buc. So what I'm asking
19 you here is, taken as a whole, these interrogatories
20 enumerate a number of areas where it would be helpful
21 to have data in the development of these estimates as
22 you've developed them and as the Postal Service has
23 developed them, but that these data are not available.
24 For some of them, given the lack of availability, you
25 have used certain logical approaches or extensions of

1 existing data to derive results. Is that correct?

2 A And I think that's a very important caveat
3 because I point out that what I've done is very
4 similar to what the Postal Service does. In the many
5 situations where data are lacking, you use a
6 reasonable basis to infer what the data would have
7 looked like had they been there. For instance, for
8 the distribution of not-handling tallies, there are no
9 data that show how not-handling tallies are
10 distributed to rate categories, and there are a very
11 large number of nonhandling tallies. They need to get
12 distributed to rate category. The Postal Service
13 makes a logical analysis, a logical assumption, and
14 that's basically the same way I fill my data gaps.

15 Q Well, let's pursue that. Specifically,
16 could you turn to page 18 of your testimony, please,
17 lines 13 through 20?

18 A I've got it.

19 Q Now, lines 13 through 20 contain a quote
20 from Witness **Bozzo's** testimony in R-2005-1. The
21 quoted area here is talking about -- it quotes Witness
22 Bozzo talking about the treatment of certain costs in
23 mail processing which are overhead to those costs, not
24 handling time, empty container handlings, and things
25 like that. Is that correct?

1 A He talks about container handlings as well
2 as overheads not-handling time. He talks about both,
3 I believe, in this quoted section.

4 Q Basically, the activities that he is talking
5 about here are activities which are related to the
6 sorting of mail. Is that correct?

7 A I don't think, in the overheads, he is
8 talking about the sorting of mail.

9 Q There are overheads, however, associated
10 with mail processing itself.

11 A Yes, there are.

12 Q These activities that Mr. Bozzo is talking
13 about are a little bit more constrained than some of
14 the activities that you looked at in your cost pools,
15 are they not? And I'm thinking about the gentleman
16 who is delivering a stand-up clock to postal
17 employees.

18 A I'm sorry. I don't follow what the question
19 is.

20 Q Okay. The question is, looking at what Mr.
21 Bozzo
22 has done, while he is talking about the development of
23 costs that are piggy-backed or derive from other
24 costs, then he is talking about mail-processing costs
25 and costs that are related to the mail-processing

1 activity itself. They may be overhead costs, but they
2 are in mail processing.

3 A The costs that Mr. Bozzo talks about for
4 volume variability are all mail-processing costs.
5 That's correct.

6 Q But you're citing in here, I think, or at
7 least I read your testimony that way, of standing for
8 a broader situation, and the one that I indicated to
9 you was that it was the situation that you've got
10 somebody giving a stand-up clock to a group of
11 employees, and you would want to apportion the time of
12 that individual to some of these employees, even
13 though that individual may have nothing to do with
14 mail processing. He might be from the postal
15 personnel office or whatever. That's all I'm
16 indicating,

17 A That doesn't sound like an accurate
18 characterization.

19 Q Of which, Mr. Bozzo's testimony or --

20 A Of my interpretation of Mr. Bozzo's
21 testimony.

22 Q Well, perhaps we should move on from this,
23 and this may be best handled by having Mr. Bozzo
24 interpret his testimony for us.

25 A But I don't think he would be as good at

1 interpreting my interpretation of Mr. Bozzo.

2 Q Well, I have good news for you. I won't ask
3 him to do that.

4 Mr. Buc, you indicate -- I'm looking at your
5 testimony here on page 13 -- some distress in the
6 Postal Service's cost model in terms of its exclusion
7 of certain pools of costs that you thought that it
8 ought to address. Is that correct?

9 A I'm not sure I would use the adjective
10 "distress," but I think I do say that the Postal
11 Service ignored some pools as proportional that
12 probably should have been included. This is the one
13 that talks about delivery unit costs, not mail
14 processing, at least at the top of page 13. Are you
15 talking about the bottom?

16 Q I'm looking at the bottom of page 13,
17 beginning with their Section D, and beyond there, this
18 is where you introduce your thought experiment, which
19 demonstrates some simple relationships but, in itself,
20 does not bring data to bear on this particular
21 problem, does it?

22 A The thought experiment doesn't produce
23 tallies, but it provides information that can be
24 brought to bear on this topic.

25 Q At any rate, there are certain costs that

1 you thought the Postal Service should have modeled
2 that they did not. Can we agree on that?

3 A We can agree on that, or that they might
4 have modeled. As a clarification, what I'm really
5 saying is that because they didn't model them does not
6 mean that they are not proportional.

7 Q Well, you anticipate what I'm getting to
8 here. I note here, in your testimony and in the
9 Postal Service's testimony, that when they refer to
10 costs that are fixed with respect to the model, they
11 put the word "fixed" in quotation marks, and I take
12 it, that's because they don't mean fixed with respect
13 to volume; they simply mean fixed with respect to the
14 fact that the model does not address it. Is that your
15 understanding?

16 A After some period of -- some number of
17 interrogatories, that's the understanding that we've
18 come to. Originally, my interpretation was that the
19 Postal Service was actually asserting that those costs
20 were fixed with respect to presort level. Now, I
21 understand that what the Postal Service is saying,
22 they may, in fact, be variable with respect to presort
23 level, but we have not, in fact, modeled them. That's
24 my current understanding of what the record shows.

25 Q Okay. Well, I appreciate that response, Mr.

1 Buc.

2 You're not indicating here that the Postal
3 Service has failed to include the effects of these
4 various cost-saving behaviors and other things -- the
5 cost and revenue analysis, the CRA Report, would, in
6 fact, reflect all of these things that you're talking
7 about that aren't reflected in the model itself. Is
8 that correct?

9 A Yes. The Postal Service, some of fixed and
10 proportional costs does tie out to a CRA cost.

11 Q And the cost for the presort categories
12 indicating the CRA would reflect these various
13 considerations that aren't directly addressed, in your
14 view, in the Postal Service's model. Is that correct?

15 A I think that they reflect the total cost.
16 I'm not sure that the way the CRA is structured tells
17 me anything at all about the cost of three-digit mail
18 as opposed to five-digit mail as opposed to AADC or
19 MAADC. That's why the Postal Service models it.

20 Q But the effects from mailer cost-saving
21 behavior, in terms of preparing mail, are reflected in
22 the CRA number for presort itself. It's embodied in
23 that number.

24 A Yes. I accept that the CRA costs are
25 reasonably accurate for first-class mail.

1 Q And the Postal Service takes its results
2 from this model here, and it ties it out to the CRA
3 costs, does it not, to normalize those costs to the
4 CRA?

5 A The total cost from the model will tie to
6 the total cost for the CRA. That is correct.

7 Q And since the total costs in the model are
8 the sum of the various costs for the various elements
9 within that model, those costs themselves will also
10 reflect the adjustment to the CRA and will also
11 reflect, at least to some degree, the effect on the
12 CRA costs of these various kinds of things that you
13 indicate should have been handled by the model itself.
14 Is that correct?

15 A I'm sorry. You'll have to try that one
16 again.

17 Q Okay. It was a long sentence. Let me see
18 if I can break it down.

19 When the results from the Postal Service's
20 model that's the topic of discussion here are adjusted
21 to tie to the numbers in the CRA, the cost numbers,
22 the breakdown of costs produced by the model itself is
23 adjusted, at least to some extent, for the effects in
24 the CRA by the three categories you've mentioned. Is
25 that correct? It's not that they are completely

1 missing.

2 A Three categories? I'm still confused. I'm
3 sorry.

4 Q The number of categories, I think, for our
5 discussion here is probably not material, so let's
6 just indicate that there are a number of categories
7 that the Postal Service's model addresses for which
8 data are not available in the CRA, which is the
9 reason, as you indicate, for operating the model in
10 the first place. Is that correct?

11 A That's correct.

12 Q What I'm indicating here, Mr. Buc, is that,
13 in adjusting the results of the model to the presort
14 costs that are embodied in the CRA, that those
15 adjusted model costs themselves do reflect the kinds
16 of things, have to reflect the effect of the kinds of
17 things, that the model did not specifically address.

18 A Given that the total modeled costs, with
19 proportional and fixed components, will tie out to the
20 CRA, if the question is, have we got all of the costs,
21 or have we forced the costs or adjusted the costs,
22 then the answer has to be yes. You get the same
23 number out of the model after you get done adjusting
24 it as you get from the CRA because you've forced it to
25 do that.

1 Q So the decisions which, in terms of
2 attributability, which are reflected in the CRA costs
3 and the kinds of mailer behavior, in terms of
4 preparing the mail that those costs represent, do, in
5 fact, wind up in the estimates that are initially
6 developed in the model.

7 A Well, the model only uses attributal costs,
8 and I think we've been pretty clear about that, and
9 given the degree that the Postal Service believes
10 costs are attributable, that would be reflected both
11 in their model costs, which are derived from the CRA,
12 and their CRA costs.

13 Q To the extent that presort costs reflect
14 various items of mailer behavior to make the mail
15 easier for the Postal Service to handle and the cost
16 savings, therefore, all of those will be reflected in
17 the cost developed in the model after they are tied
18 out and normalized to CRA costs. Is that correct?

19 A No. That just doesn't sound right. I don't
20 think that is correct.

21 As an example, what you're postulating would
22 be if you modeled absolutely nothing and made it all
23 fixed, would that really reflect mailer behavior, and
24 the answer to that is, no, it obviously wouldn't.

25 So, by the very nature of the fact that it

1 ties out, doesn't really mean that all of the cost
2 activities that the mail has to go through and that
3 are affected by the level of presort are reflected in
4 the model, that just doesn't follow at all. I'm
5 sorry.

6 Q What I'm indicating here, Mr. Buc, is that
7 the model is designed to reflect the major
8 characteristics, cost-causing characteristics, of the
9 various categories of mail involved, and there are
10 certain characteristics that the model doesn't
11 reflect

12 Certainly, in the tying out the model's
13 results assuming that one has done a fairly decent
14 job of developing the model, the final numbers from
15 that model are going to be adjusted to CRA numbers and
16 are going to reflect in some way the characteristics
17 of those numbers. They flow back into the model
18 numbers in some way, do they not?

19 A I just don't think I agree with that
20 statement. I'm sorry. And there may be a difference
21 in what the model is designed to do and what it
22 actually does. Maybe it's designed to capture the
23 major cost pools, but what I think it basically says
24 is that it captures the piece distributions.

25 Q Well, let's try it this way. Suppose we

1 have a model. Let's make this a hypothetical. Let's
2 assume you have a model here to develop the detail of
3 costs, presort category costs, that aren't available
4 in the CRA, and that model accounts for 90 percent of
5 costs that are relevant to those categories. Let's
6 start out with that.

7 It only counts for 90 percent because there
8 are certain categories that simply could not be
9 modeled because the data was not available.

10 Now, when those results are tied out to the
11 CRM results, those costs then add **up** to 100 percent of
12 the costs that are reported in the CRA. Is that
13 correct?

14 A That's correct, but that doesn't mean that
15 that's an acceptable form of modeling. If the 10
16 percent that were assumed in a tie-out was very
17 different from the 90 percent that was modeled, the
18 distribution of costs could be very, very, very
19 different, depending on what really went on with that
20 10 percent that you just assumed.

21 Q Okay. So that narrows things down because
22 now we're talking about the totals are okay, and the
23 totals of the various costs developed through the
24 model reflect some effects for the total, but your
25 problem here is that the distribution of these

1 nonmodeled effects might not be proportional to all of
2 the various breakdowns that the model addressed. Is
3 that correct?

4 A I haven't had a quarrel to date with the
5 modeled portions. I have accepted the model portions,
6 used the modeled portions. I haven't gone in and
7 fussed with the productivities of the flows. I've
8 said they have modeled them, and we simply improved
9 the portions that weren't modeled that the Postal
10 Service assumed didn't vary at all with respect to
11 presort level because we showed three reasons why they
12 should vary with presort level. So I guess I'm
13 agreeing with your statement.

14 MR. HESELTON: Mr. Buc, the Postal Service
15 appreciates your candid responses to its questions
16 today.

17 Mr. Chairman, the Postal Service has no
18 further cross-examination, except for follow-up.

19 CHAIRMAN OMAS: Thank you, Mr. Heselton.

20 Is there anyone else who wishes to cross-
21 examine this witness? Mr. Henderson, do you have any?

22 Are there any questions from the bench?

23 THE WITNESS: May I add one thing, Mr.
24 Chairman?

25 CHAIRMAN OMAS: Yes.

1 THE WITNESS: It was a pleasure to be cross-
2 examined by Mr. Heselton because when I came to the
3 Postal Service 30 years ago, Mr. Heselton was my first
4 supervisor. Closing of a circle.

5 MR. HESELTON: Mr. Chairman, in fact, it was
6 a pleasure for me to cross-examine Mr. Buc.

7 CHAIRMAN OMAS: Any more compliments? What
8 about me?

9 Well, that brings us to redirect. Mr.
10 Scanlon, would you like some time with your witness?

11 MR. SCANLON: No, thank you, Mr. Chairman.
12 No redirect.

13 CHAIRMAN OMAS: Well, Mr. Buc, you get off
14 very lightly today. That completes your testimony
15 here today. We appreciate your contribution to our
16 record and your presence here today, and you are now
17 excused.

18 THE WITNESS: Thank you very much, Mr.
19 Chairman.

20 (Witness excused.)

21 CHAIRMAN OMAS: All those compliments.
22 Mr. Costich, would you please introduce your
23 witness?

24 (Pause)

25 MR. COSTICH: Thank you, Mr. Chairman. The

1 OCA calls Pamela A. Thompson.

2 CHAIRMAN OMAS: Ms. Thompson, would raise
3 your right hand?

4 Whereupon,

5 PAMELA A. THOMPSON

6 having been duly sworn, was called as a
7 witness and was examined and testified as follows:

8 CHAIRMAN OMAS: You may be seated.
9 Mr. Costich?

10 (The document referred to was
11 marked for identification as
12 Exhibit No. OCA-T-4.)

13 DIRECT EXAMINATION

14 BY MR. COSTICH:

15 Q Ms. Thompson, do you have a document before
16 you identified as OCA-T-4?

17 A Yes, I do.

18 Q What is that document?

19 A That's my testimony.

20 Q Was that prepared by you or under your
21 supervision?

22 A Yes, it was.

23 Q If you were to testify orally today, would
24 that be your testimony?

25 A Yes, it would.

1 MR. COSTICH: Mr. Chairman, I move the
2 admission of OCA-T-4.

3 CHAIRMAN OMAS: Is there any objection?

4 (No response.)

5 CHAIRMAN OMAS: Hearing none, I will direct
6 counsel to provide the reporter with two copies of the
7 corrected direct testimony of Pamela A. Thompson.
8 That testimony is received into evidence; however, as
9 is our practice, it will not be transcribed.

10 (The document referred to,
11 previously marked for
12 identification as Exhibit No.
13 OCA-T-4, was received in
14 evidence.)

15 CHAIRMAN OMAS: Ms. Thompson, have you had
16 an opportunity to examine the packet of designated
17 written cross-examination that was made available to
18 you here today?

19 THE WITNESS: Yes, sir.

20 CHAIRMAN OMAS: If those questions contained
21 in that packet were posed to you orally today, would
22 your answers be the same as those you previously
23 provided in writing?

24 THE WITNESS: I have one correction, and
25 that correction is to my response to ABA-NAPMOCAT4-1.

1 In the table, total single-piece postage revenue for
2 test year after rate USPS revenue should be
3 \$18,934,871, and the difference of OCA over or under
4 is negative \$355,495.

5 CHAIRMAN OMAS: Thank you. Are there any
6 additional corrections you would like to make other
7 than that?

8 THE WITNESS: No, sir.

9 CHAIRMAN OMAS: Counsel, would you please
10 provide two copies of the corrected designated written
11 cross-examination of Witness Thompson to the reporter?
12 That material is received into evidence and is to be
13 transcribed into the record.

14 (The documents referred to,
15 previously identified as
16 Exhibit No. OCA-T-4 was
17 received in evidence.)

18 //

19 //

20 //

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23 //

24 //

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS PAMELA A. THOMPSON
(OCA-T-4)

Interroaatories

Major Mailers Association

MMA/OCA-T4-1-10
PB/OCA-T4-1

National Association of Presort
Mailers

ABA-NAPM/OCA-T4-1-6

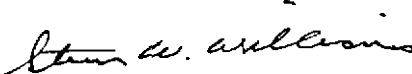
Pitney Bowes Inc.

PB/OCA-T4-1-2

United States Postal Service

USPS/OCA-T4-1-6

Respectfully submitted.


Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
OFFICE OF THE CONSUMER ADVOCATE
WITNESS PAMELA A. THOMPSON (T-4)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

ABA-NAPMIOCA-T4-1

NAPM

ABA-NAPMIOCA-T4-2

NAPM

ABA-NAPM/OCA-T4-3

NAPM

ABA-NAPM/OCA-T4-4

NAPM

ABA-NAPM/OCA-T4-5

NAPM

ABA-NAPMIOCA-T4-6

NAPM

MMA/OCA-T4-1

MMA

MMA/OCA-T4-2

MMA

MMA/OCA-T4-3

MMA

MMA/OCA-T4-4

MMA

MMA/OCA-T4-5

MMA

MMA/OCA-T4-6

MMA

MMA/OCA-T4-7

MMA

MMA/OCA-T4-8

MMA

MMA/OCA-T4-9

MMA

MMA/OCA-T4-10

MMA

PBIOCA-T4-1

MMA. Pitney Bowes

PB/OCA-T4-2

Pitney Bowes

USPS/OCA-T4-1

USPS

USPSIOCA-T4-2

USPS

USPS/OCA-T4-3

USPS

USPSIOCA-T4-4

USPS

USPS/OCA-T4-5

USPS

USPSIOCA-T4-6

USPS

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

ABA-NAPM/OCA-T4-1. This question refers to the following statement on pages 3-4 of your testimony (OCA-T-4):

The letter monopoly exists to hold down rates for the more costly pieces of mail and provide mail service to all. If the monopoly did not exist, people would pay at least what the mail piece costs to process and rates would be set to reflect those costs. However, the monopoly's existence is such that one does not have to give large discounts to those mailers of cleaner mail (automation compatible) and shift more of the cost of the universal service to those mailers who are unable to provide discounted mail. Under the monopoly, those mailers that might otherwise be eligible for large discounts should not be given deeper discounts because First-class mail exists to provide a reasonably priced mail stream in support of universal service.

- (a) Please confirm that the OCA's rate proposals for First-class Mail would increase the total expected revenue [sic] First-class Presort letter mail by an amount equal to the expected reduction in revenue from First-class Single-Piece letter mail. If you do not confirm, please explain fully.
- (b) How much would your proposal save the average American consumer in First-class Single-Piece postage?
- (c) How much of the offsetting increase in First-class Presort postage would be recovered by business mailers from consumers through higher fees (e.g., for credit card and checking accounts) or lower interest rates (e.g., for savings accounts and other investment accounts)?
- (d) What would be the net financial effect on the average American consumer from adopting the OCA's rate proposals for First-class letter mail rather than the proposals of the USPS?
- (e) What would be the net financial effect on the average American consumer from adopting the OCA's rate proposals for First-Class mail of all shapes, rather than adopting the proposals of the USPS?
- (f) What would be the net financial effect on the average American consumer from the OCA's rate proposals for all classes of mail. rather than adopting the proposals of the USPS?
- (g) Please produce all data, studies and analyses underlying your answers to the previous parts of this question.

ANSWERS OF OCA WITNESS PAMELA A THOMPSON
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

Revised 10/20/2006

RESPONSES TO ABA-NAPM/OCA-T4-1.

a. Not confirmed, See USPS-LR-L-129 and OCA-LR-L-5, worksheets labeled "Rev FY08BR&FY08AR. The numbers shown in the table below do not sum to Total First-class calculated revenue. However, the data is provided to be responsive to your interrogatory

Rate Category	TYAR OCA Revenue (\$000)	TYAR USPS Revenue (\$000)	Difference (\$000) OCA Over/(Under)
First-class Single-Piece			
Letter-Shaped	\$14,018,253	\$14,028,762	(\$ 10,509)
Total Single-Piece Postage Revenue	18,579,376	18,000,601 18,934,971	(87,285) (355,495)
Presort			
Non-automation Letter-Shaped	335,839	336,000	(161)
Automation Presort Letter-Shaped	15,929,480	15,751,622	177,858
Automation Flat-Shaped	466,271	426,190	40,081
Presort Parcel-Shaped	184,920	239,801	(54,881)
Total First-class Calculated Revenue	\$35,548,391	\$35,545,505	\$ 2,886

b - f. I do not know; but I note that the Postal Service failed to provide evidence for the matters raised by these questions when it introduced its new approach to ratemaking

g. N/A

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

ABA-NAPM/OCA-T4-2. This question refers to page 10 of your testimony, where you state that you use the "Commission's approved First-class worksharing benchmark, the Bulk Metered Mail letter cost, when calculating the First-class and Automation discounts."

(a) Please confirm that a major reason for using the traditional Bulk Metered Mail benchmark is that it has been considered the mail most likely to be workshared. If you do not confirm, please explain. Please explain any failure to confirm.

(b) Please refer to **Dr. Panzar's** testimony (**PB-T-1**) at pages 36-37, where he summarizes a recent paper of his as follows:

The basic theoretical result was that an efficient allocation of mail processing activity between the Postal Service and mailers requires a worksharing discount equal to the average Postal Service processing cost of the type of mail just at the margin of being profitable for mailers to workshare. This suggests that the previous methodology of basing discounts based upon the avoided processing cost of mail most likely to be workshared, is likely to lead to discounts too low to result in an efficient allocation of mail processing activity.

Please reconcile this result of Dr. Panzar's with your use of the traditional BMM benchmark.

RESPONSES TO ABA/NAPM/OCA-T4-3.

a. The quote you refer to is on page 3 of my testimony, at lines 15 to 17. Not confirmed. BMM has been considered the mail most likely to convert to presort. Please see PRC Op. R2000-1, para. 5080.

b. As I am not an economist, I have not ~~been~~ able to discern why witness Panzar thinks there is a difference between "at the margin of being profitable" and "*most likely to convert.*" To me, they are the same criterion.

I note that you deleted the last sentence of the paragraph you quoted. That sentence reads, "However, the primary practical implication of my analysis was that in the presence of Postal Service mailprocessing cost heterogeneity, any discount policy *will* lead to some mail being processed inefficiently."

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

(Emphasis in the original.) A corollary of my testimony would be that any inefficiency in setting workshare discounts should accrue to the *benefit* of captive customers.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

ABA-NAPM/OCA-T4-3. Please assume that there are two postal products, product A and product B, and that product A costs per unit \$10 to supply while product B costs \$1 per unit to supply. There is thus a \$9 cost difference between Product A and Product B. Please assume further that ten cents of that cost difference is due to "avoided costs" and that the remaining \$8.90 of that cost difference is therefore due to "other" cost drivers. Is it your position that the Postal Service should set the discount for product B only at 100% of avoided costs, thus fully recognizing only the ten cents of cost difference due to avoided costs, and ignoring the remaining \$8.90?

RESPONSE TO ABA-NAPM/OCA-T4-3

If product A and product B are in the same subclass and the \$0.10 is based on mail processing and delivery cost savings, then yes

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

ABA-NAPM/OCA-T4-4. Please confirm that your development of First-class Presort rates relied on the same cost pool classifications (proportional, fixed—worksharing related, and fixed—nonworksharing related) used by the USPS in this case.

- (a) If you fail to confirm without qualification, please explain in detail
- (b) For each cost pool that you treat as "fixed—worksharing related" or "fixed—nonworksharing related", please cite all data, studies and analyses (other than the USPS testimony cited in your testimony) that support your classification.
- (c) Please produce all data, studies and analyses cited in response to part (b) but not already on file with the Commission.

RESPONSES TO ABA-NAPM/OCA-T4-4

a – c. I relied on the "Summary" worksheet of the USPS-LR-L-141, Revised 8-23-2006, filename, "USPS-LR-L.141.FCMRev2.xls". I did not analyze cost pools.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

ABA-NAPM/OCA-T4-5. This question refers to your statement, on page 12 of your testimony, that

Household mailers, home office mailers, small business mailers are not candidates for converting their mail to presort, and I doubt large presort bureaus are interested in going to each and every home office, small business and household mailer to gain their business. It would not be cost effective.

(a) Please produce all data, analyses and studies on which **you** rely concerning the attractiveness of home office, small business and household mail to "large presort bureaus."

(b) Please produce all data, analyses and studies on which you rely concerning the attractiveness of home office, small business and household mail to presort bureaus of **any** size.

(c) If the Postal Service offered a value added rebate ('VAR) for mail bearing undiscounted Single-Piece First-class indicia of postage, but entered in a presorted condition by a presort bureau or other third-party consolidator, would the presorting of collection mail become more attractive for presort bureaus?

(d) Please produce all data, studies **and** analyses underlying your responses to the previous parts of this question.

RESPONSE TO ABA-NAPM/OCA-T4-5.

a – b. Currently, presort bureaus do not go to home offices, small business and households to collect mail. There may be rumors to that effect, but I am not aware of any data to substantiate it. Please see Tr. 16/4938 – 40.

c. Yes.

d. Please see my response to part a - b of this interrogatory

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

ABA-NAPM/OCA-T4-6.

- (a) Is the majority of growth in the volume of Presort First-class Mail due to the conversion of Single-Piece mail?
- (b) What percentage of the growth in the volume of Presort First-class Mail is due to the conversion of Single-Piece Mail?
- (c) Please provide all data, studies and analyses on which your responses to parts (a) and (b) rely.

RESPONSE TO ABA-NAPM/OCA-T4-6.

a – b. I do not know.

c. N/A

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORY MMA/OCA-T4-1

MMA/OCA-T4-1.

Please provide the implicit cost coverages for First-class (1) single piece letters and (2) presorted letters under your proposed rates, and show how you derived them.

RESPONSE TO MMA/OCA-T4-1.

Single-Piece First-Class	Volume (000)	Revenue (\$000)	Avg Rate/ Piece	Cost/ Piece	Implicit Coverage	Per Unit Contribution
Letter-shaped	33,376,794	\$14,018,253				
QBRM	322,989	127,581				
Total Single Piece Letter-Shaped	33,699,783	14,145,834	\$0.42	\$0.222	189%	\$0.198
Presort Letters:						
Mixed AADC	2,918,778	1,055,693				
AADC	2,538,198	887,709				
3-Digit	23,024,390	7,953,545				
5-Digit	18,233,989	6,032,533				
Total Presort Letters	46,715,355	15,929,480	\$0.341	\$0.101	338%	\$0.24
Total First-Class Letter-shaped Wt. Average	80,415,138	\$30,075,314	\$0.374	\$0.152	246%	\$0.222

The volume and revenue numbers are from OCA-LR-L-5, worksheet "Rev FY08BR&FY08AR." The "Cost/PC" is from **the** institutional response to OCA/USPS-26 (USPS only provided TYBR 2008 unit costs), and **the** implicit cost coverages are calculated at the CRA category level.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-2.

On page 3 of your testimony, you state, "[t]he letter monopoly exists to hold down rates for the more costly pieces of mail and provide mail service to all." Please define precisely what you mean by "more costly pieces" and provide the source of your definition.

RESPONSE TO MMA/OCA-T4-2.

Please see my response to USPS/OCA-T4-1. In addition, whenever costs are averaged, there is implicitly some mail that is more costly to process and some that costs less to process.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-3.

On page 4 of your testimony, you state that "[t]he monopoly's existence is such that one does not have to give large discounts to those mailers of cleaner mail (automation compatible) and shift more of the cost of the universal service to those mailers who are unable to provide discounted mail."

- A. Please provide the source of any information whereby the Private Express Statutes say anything whatsoever about providing large discounts to mailers who send out mail that is less expensive to process and deliver.
- B. Please explain your understanding of how the Private Express Statutes impact, if at all, the Postal Service's ability to offer workshared discounts.

RESPONSE TO MMA/OCA-T4-3.

a – b. Please see my response to USPS/OCA-T4-1.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-4.

Please refer to Table 1 on page 8 of your testimony and Library Reference OCA-LR-5, file "OCA Rates" where you provide your proposed First-class Single Piece rates

- a. Please provide the total amount of revenue that you project will be lost to the Postal Service as a direct result of your proposal to eliminate the additional ounce rate for Single Piece letters weighing up to 4 ounces.
- b. Please provide the total amount of revenue that you project will be lost to the Postal Service as a direct result of your proposal to eliminate the additional ounce rate for Presorted letters weighing up to 4 ounces.
- c. Please provide the total amount of revenue that you project the Postal Service will gain as a direct result of your proposal to increase the first ounce rates for Presorted letters weighing up to 4 ounces.
- d. Please confirm that you simply adopted the Postal Service's proposal to lower the QBRM discount from 3.2 cents to 2.5 cents, and that you offered no independent analysis or judgment as justification for that proposal. If you cannot confirm, please provide citations to the portion(s) of the evidence you offer to support reducing the QBRM discount from 3.2 cents to 2.5 cents.
- e. In Library Reference OCA-LR-5, file "OCA Rates," under the word "Presorted" (Row 19) should the word "Non-presorted" on Row 20 be "Nonautomation?" If not, please explain.
- f. Would you agree that it is fair to say that, in order to finance your proposal to eliminate the additional ounce rates for First-Class Single Piece letters weighing up to 4 ounces, you propose to increase the first ounce rates for Presorted letters weighing up to 4 ounces. If you do not agree, please explain.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

Revised 10/20/2006

RESPONSE TO MMA/OCA-T4-4.

a – c. My rate proposal is essentially revenue neutral. As stated in my testimony at page 26, the TYAR revenues in my proposal increase by **\$2.9** million.

d. I did not make new calculations for the QBRM rate. **USPS** witness Taufique at page 24 of his testimony indicates that the discount of \$0.025 is the same discount that prevailed prior to the across the board rate increases. Thus, I felt the \$0.395 was appropriate.

e. Confirmed

f. Not confirmed. It is use of the BMM benchmark that results in higher Presort automation rates.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-5.

On page 18 of your testimony, you state that since R2000-1, "the Commission has continued to maintain that the BMM benchmark method is the appropriate method for determining First-class automation rates."

- A. Please confirm that, in the quoted passage, you are referring to R2001-1 and R2005-1. If you do confirm, please provide citations to the specific rulings and/or statements you relied upon. If you do not confirm, please indicate all the proceedings (after R2000-1) in which you believe the Commission has continued to maintain BMM as the benchmark from which to measure workshared mail cost savings and provide citations to the specific rulings you relied upon.
- B. Please confirm that, if an average Presorted letter was not presorted and was sent out as First-class Single Piece, it would be mailed in "bulk" (which you may define), would be faced, prepared in trays, be brought to a local post office, and would be presented at a BMEU and not a window. Please support your answer.
- C. Please confirm that all of the factors that influence the growth in Presorted mail volume today are the same as those that affected the growth in Presorted mail volume when the BMM benchmark was established almost ten years ago. Please support your answer by identifying all factors that you believe affected the volume of Presorted mail when the BMM benchmark was first adopted and indicate how they have changed since that time.

RESPONSE TO MMA/OCA-T4-5.

- a. Not confirmed. See PRC Op. R2000-1, para. 5089.

Docket No. R2001-1 was settled and as stated in PRC Op. R2001-1 at i: "The agreed-upon rates, and any process used to arrive at them, are to have no precedential effect in future cases." In Docket No. R2005-1, the Postal Service and mailers proposed a Stipulation and Agreement that resulted in a 5.4 percent across-the-board rate increase. In the Stipulation and Agreement, under the Terms and Conditions of the Stipulation, item number 12 indicates that signatories agreed:

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

[I]n any future proceeding, adherence to this agreement is not intended to constitute or represent agreement with, or concession to the applicability of any ratemaking principle, any method of cost of service determination, any method of cost savings, measurement, any principle or method of rate or fee design, any principle or method of mail classification,

- b. If those average Presorted letters are faced, prepared in trays, brought to a local post office and presented at the BMEU by the mailer and not a Presort bureau, then confirmed. If the mailer wanted the mail processed sooner rather than later, it would be senseless to do otherwise.
- c. My testimony does not address any factors that may have influenced Presort mail volume in the past, present or future. I have **no** opinion.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-6.

On page 18 of your testimony, you state "[t]he **USPS's** proposal may encourage worksharing, but does so at the expense of First-class single piece mailers." Do you believe that, at the Postal Service's proposed rates in this case, workshared letters would be cross-subsidized by revenues from Single Piece letters? Please explain and support your answer. Please refer to average attributable costs and revenues for First-class Single Piece and Presorted mail as part of your response.

RESPONSE TO MMA/OCA-T4-6.

The Postal Service proposes to de-link First-class single piece mail from First-class Presort mail. The overall effect of de-linking is to prevent mail that is not being Presorted from being averaged with that mail which is Presorted. I am not a costing witness and am unable to answer your question regarding attributable costs. For the average revenue per piece for First-class single piece letters and Presort letters, please see my response to MMA/OCA-T4-1.

Revised 10/20/2006

MMA/OCA-T4-7.

Please refer to your response to MMA/OCA-T4-1 where you compute the implicit cost coverage for First-Class workshared letters as 338%.

- A. Does this mean that for every \$1 of direct and indirect cost to process an average workshared letter, the Postal Service receives \$3.38 in revenue? If not, please explain.
- B. Please provide examples of any commodity, product or service that you know of that is regulated and generates revenues that are more than three times the amount of direct and indirect costs to produce that commodity, product or service.

RESPONSE TO MMA/OCA-T4-7.

- a. Confirmed.
- b. In this docket, USPS witness Taufique proposes a 317 percent implicit cost coverage for First-class workshared letters and sealed parcels.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-8.

Please refer to Library Reference OCA-LR-5, WP-FCM-18 and your testimony on page 18 where you indicate that you start with the BMM rate of 42 cents from which you subtract the MAADC savings of 5.8cents to derive the OCA recommended MAADC rate of 36.2 cents.

- A. Please confirm that the MAADC unit cost savings from Library Reference USPS-LR-L-141 is 5.831 cents, yet you have used 5.821 cents. If you cannot confirm, please provide the exact source of the 5.821 used in Library Reference OCA-LR-5. If you can confirm, please explain why there is a difference.
- B. Please confirm that, to support your proposed rates for First Class workshared mail, you have accepted the entire analysis provided by the Postal Service in Library Reference USPS-LR-L-141 as the basis for your derived cost savings. If you cannot confirm, please identify exactly what aspects of the USPS-LR-L-141 analysis that you have accepted and what aspects you have not accepted, and, for each explain the reasons why you accepted or did not accept it.
- C. Please confirm that the workshared cost analysis presented in Library Reference USPS-LR-L-141 was not provided by the Postal Service as part of its direct rate request, but was provided as an institutional answer only in response to a Presiding Officer's Information Request (POIR) that requested for an update of the Postal Service's workshared cost savings analysis presented in R2005-1. If you cannot confirm, please explain.
- D. Please confirm that you relied upon the USPS-LR-L-141 analysis because you believe it represents the most recent methodology relied upon by the Commission. If you cannot confirm, please explain.

RESPONSE TO MMA/OCA-T4-8

- a. Not confirmed. In the revised USPS-LR-L-141, dated 8/23/06, filename "USPS.LR-L.141 FCM Rev2.xls", the worksharing related unit cost savings for MAADC letters is 50.05821.
- b. Confirmed that I relied upon the "Summary" worksheet found in USPS-LR-L-141, filename "USPS.LR-L.141.FCM Rev2.xls."
- c. Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

d. Not confirmed. The USPS-LR-L-141 was requested in POIR 5, question 5 to facilitate the Commission's and participants' understanding of the impact that the proposed methodology changes would have on the Docket No. R2005-1 methodology. I used the information from the worksheet "Summary" in USPS-LR-L-141, revised **8/23/2006**. See my response to MMA/OCA-T4-5.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-9

Please refer to Library Reference USPS-LR-L-141, pages 2 and 6, where the Postal Service has derived the CRA unit costs, broken down by proportional, worksharing fixed, and nonworksharing fixed, for BMM and Automation letters, respectively and to Library References USPS-LR-48, page 3, and USPS-LR-110, page 3.

- A. Please confirm that cost pools IOPBULK, 1OPPREF and IPOUCHING are classified as workshare-related fixed in Library Reference USPS-LR-L-141, but classified as proportional in Library References USPS-LR-L-48 and 110. If you cannot confirm, please explain.
- B. Assuming you confirm Part A, please explain why you did not "update" the cost pool classifications as provided in Library Reference USPS-LR-L-141 to reflect the Postal Service's position on these cost pools in this case?
- C. Please confirm that the analysis provided in Library Reference USPS-LR-L-141 uses metered mail letter (MML) unit ~~costs~~, obtained from the CRA without adjustment, as a proxy for BMM unit costs. If you cannot confirm, please explain.
- D. Please explain why you did not adjust the CRA MML unit costs, to obtain a proxy for BMM unit costs, as the Commission did in R2000-1.

RESPONSE TO MMA/OCA-T4-9.

a – d. I relied on page 1, of USPS-LR-L-141, revised 8/23/2006. I did not analyze cost pools, nor did I analyze the derivation of other costs in USPS-LR-L-141, revised 8/23/2006. I cannot presume that the Commission will accept the Postal Service's proposed changes.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-10

Please refer to Library Reference USPS-LR-L-141, pages 6, and 20, where the Postal Service has derived the CRA unit costs broken down by proportional, worksharing fixed, and nonworksharing fixed, for Automation and Nonautomation letters, respectively.

- A. Please confirm that this analysis relies on the breakdown of costs between Automation letters and Nonautomation letters provided by the CRA. If you cannot confirm, please explain.
- B. Please confirm that USPS witness Abdirahman rejected the CRA breakdown of Automation and Nonautomation costs and, instead, used his mail-flow models in this case to de-average "Presorted" letter costs into Automation and Nonautomation. See USPS-T-22, pages 5-6. If you cannot confirm, please explain.

RESPONSE TO MMA/OCA-T4-10.

a. I relied upon USPS-LR-L-141, revised 8/23/2006, page 1. I did not analyze other pages in that library reference.

b. USPS-T-22, page 5 states the following:

In response to POIR 1, question 1(a), I [USPS witness Abdirahman] discussed the issues that were affecting the veracity of nonautomation presort cards and letters cost estimates as developed by reference to the CRA-based auto and nonauto cost pools. Under current mail preparation standards, a percentage of letters accepted at the automation presort letters rates may have 9-digit barcodes, 5-digit barcodes, or no barcodes at all. As I noted in my response to that POIR, classifying tallies as automation presort letters based solely on the presence of a specific barcode may therefore not be valid.

USPS-T-22, page 6 states the following:

As a result of proposed changes in the approach used to develop the worksharing rates for First-class Mail, Bulk Metered Mail (BMM) unit costs are no longer used in the First-class Mail letters cost analysis. All analysis of workshare-related activities are constrained within the self-contained CRA set of costs associated with Presort Letters. Because it is no longer necessary to create a separate estimate of BMM unit costs and develop comparable cost pools isolating the workshare-related costs ~~within~~ the Presort Letters costs, the CRA cost pools within Presort Letters are no longer classified into the three classifications: proportional, workshare related and non-workshare

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

related as **was** previously done in R2005-1. Each cost pool is now classified
as being proportional or **fixed**,

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES PB/OCA-T4-1-2

PB/OCA-T4-1.

Please refer to page 6 of the OCA Trial Brief which states:

Witness Thompson opposes the "de-linking" contained in the Postal Service's proposal and employs the bulk metered mail (BMM) benchmark in setting presort rates. She agrees with the oft-expressed views of the Commission that discounts should be based on the costs avoided by the worksharing activities of mailers, not incidental cost differences that are wholly unrelated to worksharing. Discount levels set by the Commission send correct price signals, while those resulting from the uncritical application of all CRA cost differences will simply produce unwarranted cost shifts to single-piece mail. Rate discounts set in such an uneconomic manner create an inequitable rate schedule.

- a. Please confirm that you agree that discounts should be based on costs avoided by the worksharing activities of mailers. If you cannot confirm, please explain why.
- b. Please confirm that you believe that rates should be set so that discounts pass through 100 percent of the avoided costs. If you cannot confirm, please explain the circumstances under which you believe rates may be set such that discounts exceed or are smaller than costs avoided.
- c. Please confirm that your proposed rates for AADC letter automation mail, 3-digit letter automation mail, and 5-digit letter automation mail pass through 100 percent of your estimated cost avoidances.

RESPONSE to PB/OCA-T4-1.

- a. Confirmed. Discounts should be based on the costs avoided by the activities of mailers that justified the creation of the discount.
- b. Confirmed, with the understanding that "avoided costs" means the costs avoided by the activities of mailers that justified the creation of the discount. In setting postal rates, policies and factors of the Act, as well as avoided costs, must be taken into consideration

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES PB/OCA-T4-1-2

c. Confirmed. Please note that I rely on the Postal Rate Commission's methodology of projected cost savings as shown in USPS-LR-L-141, revised on 8/23/2006, filename "FCM-Rev2.xls, and pass through 100 percent of the Commission's Presort automation letter savings.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES PB/OCA-T4-1-2

PB/OCA-T4-2.

Please refer to OCA-LR-L-5. WP-FCM-10. columns O and P, rows 15 to 18

- a. Please confirm that the costs and cost avoidances for Automation Mail that you use in your testimony appear in these cells
- b. Please explain the derivation of the costs in column O, rows 15 to 18, and provide a fully sourced Excel spreadsheet showing the derivation of these numbers.

RESPONSE TO PB/OCA-T4-2

a. Not confirmed. I assume that you are referring to OCA-LR-L-5. WP-FCM-18, columns O and P. Column O contains my proposed rates. Column P has the unit cost savings and cost differentials

b. The table below provides information shown in OCA-LR-L-5. worksheet "Rate Design – Presort". Please note that the data in column (A), in the following table, is from USPS-LR-L-141, revised on 8/23/2006, filename "FCM-Rev2.xls", worksheet "Summary." column L, rows 20 to 23.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES PB/OCA-T4-1-2

Worksheet				
Row Number	Rate Category	Total Worksharing Cost Savings	First-class Presort Proposed Savings	
15	Automation Mixed AADC Letters		\$0.362 - rounded	
16	Automation AADC	\$0.07026	\$0.42-\$0.07026 = \$0.350 - rounded	\$0.07026-\$0.05821 = \$0.01205= \$0.012 rounded
17	3-Digit	60.07460	\$0.42 - \$0.07460 = \$0.345 - rounded	\$0.07460 - \$0.07026= \$0.00434= \$0.004 rounded
18	5-Digit	\$0.08938	\$0.42 - \$0.08938 \$0.331 -rounded	\$0.08938-\$0.07460= \$0.01478 = \$0.015 rounded

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIESUSPS/OCA-T4-1-6

USPS/OCA-T4-1. Please refer to your testimony, OCA-T-4, on page 3, lines 21-23, where you state:

The letter monopoly exists to hold down rates for the more costly pieces of mail and provide mail service to all. If the monopoly did not exist, people would pay at least what the mail piece costs to process and rates would be set to reflect those costs.

- a. Please explain the basis for your statement that a purpose of the Private Express Statutes is to hold rates down for the more costly pieces of mail. Provide copies of all supporting documents.
- b. Please confirm that, in many postal subclasses and rate categories, irrespective of the application of the Private Express Statutes to matter sent via those subclasses and rate categories, higher cost pieces are averaged with lower cost pieces to establish the basis upon which rates are designed. Please explain if you are not able to confirm.

RESPONSE TO USPS/OCA-T4-1

- a. I am not a lawyer. However, section 3623(d) states:

The Postal Service shall maintain one or more classes of mail for the transmission of letters sealed against inspection. The rate for each such class is to be uniform throughout the United States, its territories and possessions.

Among other factors, Section 3622 (b) charges the Commission with insuring that rates and fees proposed by the Postal Service are fair and equitable and that the Postal Service and the Commission take into consideration the effect of the increase on the general public, and the available mailing alternatives.

The general public has few, if any, alternatives available to it to mail a First-Class single-piece letter at a reasonable price. If the monopoly did not exist, rates would be set to at least recover all applicable costs. Uniform rates across the country for a mail piece that is similar in all respects except for the distance it travels would not exist

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T4-1-6

- b. When you average costs, there are implicitly some pieces that cost more to process and some that cost less to process.

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T4-1-6

USPS/OCA-T4-2. Please refer to your testimony, OCA-T-4. on page 4, lines 1-7, where you state:

However, the monopoly's existence is such that one does not have to give large discounts to those mailers of cleaner mail (automation compatible) and shift more of the cost of the universal service to those mailers who are unable to provide discounted mail. Under the monopoly, those mailers that might otherwise be eligible for large discounts should not be given deeper discounts because First-class mail exists to provide a reasonably priced mail stream in support of universal service.

- a. Please confirm that Postal Service's Docket No. R2006-1 First-class Mail rate design proposal targets equal unit contribution from both single-piece and presort mail. If you cannot confirm, please explain.
- b. Please review the revised USPS Library Reference L-129, workpaper WP-FCM-12. Confirm that the Postal Service's Docket No. R2006-1 TYAR Revenues and Costs of single-piece 2nd presort categories within the First-Class Mail Letters and Sealed Parcels subclass actually **do** result in similar per-unit contributions. If you do not confirm, please explain.
- c. Please confirm that the implicit cost coverages of single-piece and presort categories within the First-class Mail Letters and Sealed Parcels subclass proposed by the Postal Service in Docket No. R2006-1 are 186 percent and 312 percent, respectively.

RESPONSES TO USPS/OCA-T4-2

- a. USPS-T-32 at page 16 states:

The goal of similar unit contributions from these two mail categories [workshare and single-piece mail] is not an absolute one: other rate design and rate impact considerations may require the Postal Service and the Commission to deviate from this goal. However, to the extent practicable, the Postal Service's intention going forward is to equalize the unit contribution from the Single-Piece Letter category and from the Presort Letter category.

- b. USPS-LR-L-129, revised 8-24-2006, worksheet "Revenue – SP." TYAR unit contribution for First-class single piece is \$0.242. First-class Presort per unit contribution is \$0.230.

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USP3/OCA-T4-1-6

- c. Confirmed that those values appear in REV 8-24-06 LR-L-129.xls, worksheet
"Revenue – SP&Presort."

ANSWER OF OCA WITNESS PAMELA A THOMPSON
TO INTERROGATORIES USPS/OCA-T4-1-6

USPS/OCA-T4-3. Please refer to your testimony, OCA-T-4, on pages 6-7 where you state:

Under the OCA proposal, the consumer still needs to understand the difference between the three mail shapes, but the weight of the mail piece will be less critical given that 99.8 percent of all First-class letter-shaped single-piece mail weighs between 0 and 3 ounces and a \$0.42 stamp will be sufficient postage.

Please also refer to OCA-T-4. page 7, lines 11-15, where you state:

While the USPS's proposal limits the weight of First-class single piece letters to 3.5 ounces, and given the information provided by the USPS. I propose a \$0.42 rate for First-class letter-shaped mail pieces weighing from 0 to 4 ounces. In addition, if a letter is automatable there ~~is~~ no reason to charge additional ounce rates, because a machinable mail piece is not processed one ounce at a time.

- a. Please provide all cost data or cite to any record evidence in this proceeding that forms the basis for your assertion regarding the "sufficiency" of 42 cents postage for letter shaped pieces weighing between 0 and 3 ounces.
- b. Please Provide all cost data or cite to any record evidence in this proceeding that forms the basis for your belief that there is no difference in processing a 3-ounce letter-shaped piece versus a 4-ounce letter shaped piece.
- c. If you have personally observed the processing of letters in a postal facility and are basing your opinion on personal observation, please provide the date and location of the visit and provide copies of any notes of your observations that were recorded contemporaneously with those visits.
- d. Please provide documents underlying any analysis you have performed concerning differences in postal letter mail processing equipment throughput based on differences in the weight and/or thickness of mail pieces.

RESPONSES TO USPS-T4-3.

- a. USPS witness Taufique in USPS-LR-L-129, worksheet "Revenue-

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
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SP&Presort" for TYAR 2008 Single Piece Test Year unit letter cost is \$0.28 (cell 842).

b. In the test year, the USPS plans to have at least 617 DIOSS-EC machines, which are capable of handling weights up to a maximum of 6 ounces. (USPS-T42 at 7, line 24). See also, the response of USPS witness Marc D. McCrery to ADVO/USPS-T42-10. (Docket R2006-1, Tr. 16/2754.)

c. N/A

d. Please refer to the response to part b of this interrogatory

ANSWER OF OCA WITNESS PAMELA A THOMPSON
TO INTERROGATORIES USPS/OCA-T4-1-6

USPS/OCA-T4-4. Please refer to OCA-T-4, on pages 8 and 9 and Tables 1 and 2 where you present the OCA's rate design proposal for First-class Mail single piece mail and the percent increases for various shapes such as letters, flats and parcels for certain weight increments.

- a. Please confirm that you are proposing a rate of 84 cents for First-Class Mail single-piece flat shaped pieces weighing between 0 and 1 ounce. If you cannot confirm, please explain.
- b. Please confirm that your proposed increase for First-class Mail single-piece flat-shaped pieces will lead to an increase of over 60 percent for pieces weighing between 0 and 1 ounce.
- c. Please confirm that your proposed rate for First-class Mail single-pieces flats, when applied to the additional mail processing and delivery costs presented in witness Taufique's testimony (USPS-T-32 at 23, also provided in WP-FCM 14, LR-L-129) will lead to a passthrough of 113 percent of the additional costs for single-piece flats. If you can[not] confirm, please explain fully.
- d. Please confirm that you are proposing a rate of \$1.68 for First-class Mail single-piece parcel-shaped pieces weighing between 0 and 1 ounces. If you cannot confirm, please explain.
- e. Please confirm that your proposed increase for First-class Mail single-piece parcel shaped pieces will lead to an increase of over 220 percent for pieces weighing between 0 and 1 ounce.
- f. Please confirm that your proposed rate for First-class Mail single-pieces parcels, when applied to the additional mail processing and delivery costs presented in witness Taufique's testimony (USPS-T-32 at 23, also provided in WP-FCM 14, LR-L-129) will lead to a passthrough of 108 percent of the additional costs for single-piece parcels. If you can[not] confirm, please explain fully.
- g. Please state whether it is your opinion that an increase of over 60 percent proposed by OCA for single-piece flats weighing between 0 and 1 ounce would constitute a rate shock for the mailers who do not have an option of preparing bulk, automation compatible mailing.
- h. Please state whether it is your opinion that an increase of over 220 percent proposed by OCA for single-piece parcels weighing between 0 and 1 ounce

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
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would constitute a rate shock for the mailers who do not have an option of preparing bulk mailing.

RESPONSE TO USPS-T4-4.

- a. Confirmed,
- b. Confirmed,
- c. Implicitly yes. However, I was primarily concerned with customer convenience and not with the amount of the pass-through.
- d. Confirmed,
- e. Confirmed.
- f. Implicitly yes. However, I was primarily concerned with customer convenience and not the amount of the pass through.
- g. Mailers mailing flats in the 0 to 1 ounce weight range may find the rate increase shocking. Such mailers may convert their flats to letters.
- h. Mailers mailing parcels in the 0 to 1 ounce weight range may find the rate increase shocking. Such mailers may seek ways to consolidate shipments.

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T4-1-6

USPS/OCA-T4-5. Please refer to your workpaper OCA-LR-L-5, worksheet 'Rate Design SP Flts & Parcels' and worksheet 'Rate Comparison'.

- a. Please confirm that you have estimated the rate for a First-class Mail single-piece flat shaped piece of 69 cents using a passthrough of 73 percent, using the same cost numbers (mail processing and delivery) that were used by USPS witness Taufique with a different passthrough. If you cannot confirm please explain.
- b. Please reconcile the 69 cents rate discussed in subpart (a) for First-Class Mail single-piece flat shaped piece with your proposed rate of 84 cents that would also be applicable to a 1 ounce First-class Mail single-piece flat shaped piece.
- c. Please confirm that you have estimated the rate for a First-class Mail single-piece parcel shaped piece of \$1.30 using a passthrough of 75 percent, using the same cost numbers (mail processing and delivery) that were used by USPS witness Taufique with a different passthrough. If you cannot confirm please explain.
- d. Please reconcile the \$1.30 rate discussed in subpart (c) for First-Class Mail single-piece parcel shaped piece with your proposed rate of \$1.68 that would also be applicable to a 1 ounce First-class Mail single-piece flat shaped piece.

RESPONSE TO USPS-T4-5.

- a. Confirmed.
- b. My First-class single piece flat-shaped rate for a one ounce mail piece is \$0.84. My rate design was primarily concerned with customer convenience
- c. Confirmed.
- d. The rate for a 1 ounce First-class single piece parcel-shaped mail piece is \$1.68. My proposed rate for a 1 ounce First-class single piece flat-shaped mail piece is \$0.84. My rate design was primarily concerned with customer convenience

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T4-1-6

USPS/OCA-T4-6. Please refer to OCA-LR-L-5, worksheet 'OCA Rates' and to the note in cell 'a58' which states: 'Note: Collapsed SP letters 4 - 8 oz to 4 - 8 oz flats. Also, collapsed SP letters 8 - 13 oz to 8 - 13 oz flats'.

- a. What is meant by this note?
- b. How were the rates collapsed?
- c. Please provide a precise citation to the portion of your workpapers where this operation was performed.

RESPONSES TO USPS/OCA -T4-6

a-c. Unfortunately, my footnote is not as clear as it could have been. Rates were not collapsed. I am referring to the fact that First-class single piece letter-shaped volumes in the 4 to 8 ounce range were added to the TYAR First-class single-piece flat-shaped volumes forecasted in the 4 to 8 ounce range to determine the total TYAR First-class single-piece flat-shaped volumes in the 4 to 8 ounce range. See, OCA-LR-L-5, worksheet "VolFY08BR&FY08AR". The TYAR First-class single-piece flat-shaped volumes of 683,855,000 – (cell AJ14, rounded) are the sum of the TYAR volumes from the worksheet "Shp&Addl. Ozs. Distribution" for First-class single-piece letter-shaped volumes in the 4 to 8 ounce range (22,727,631 – cell D96) and the TYAR volumes for First-class single piece flat-shaped volumes in the 4 to 8 ounce range (661,127, 383 – cell D97).

For the 8 to 13 ounce weight increment, I am referring to the fact that First-Class single-piece letter-shaped volumes in the 8 to 13 ounce range were added to the TYAR First-class single piece flat-shaped volumes forecasted in the 8 to 13 ounce range to determine the total TYAR First-class single piece flat-shaped volumes in the 8 to 13 ounce range. See, OCA-LR-L-5, worksheet

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T4-1-6

"VolFY08BR&FY08AR". The WAR First-class single piece flat-shaped volumes of 221,595,000 – (cell AK14, rounded) are the sum of the TYAR volumes from the worksheet "Shp&Addl. Ozs. Distribution" for First-class single piece letter-shaped volumes in the 8 to 13 ounce range (2,293,242 – cell E96) and the TYAR volumes for First-class single piece flat-shaped volumes in the 8 to 13 ounce range (219,301,337 – cell E97).

1 CHAIRMAN OMAS: This brings us to oral
2 cross-examination. The American Bankers Association;
3 Mr. Brinkmann, you may begin.

4 MR. BRINKMAN: Thank you very much, Mr.
5 Chairman.

6 CROSS-EXAMINATION

7 BY MR. BRINKMAN:

8 Q Good afternoon, Ms. Thompson. I'm Bob
9 Brinkmann, representing the ABA today.

10 A Good afternoon.

11 Q Could you turn to your response to ABA-
12 NAPAMOCAT4-1?

13 A Yes.

14 Q Look at B. It says: "How much would your
15 proposal save the average American consumer in first-
16 class, single postage?" and you answered basically
17 that you didn't know. You hadn't calculated that.

18 A That's correct.

19 Q Do you know how many mail pieces an average
20 household sends per week?

21 A Not off the top of my head, no.

22 Q Would you accept, subject to check from the
23 2005 household diary study, that it's 3.6 pieces a
24 week?

25 A Subject to check, yes.

1 Q Okay. Now, if one were to raise the single-
2 piece rate by a penny, and just the single-piece rate,
3 what would be the impact on an average household per
4 week?

5 A I'm sorry.

6 Q If one were to raise the single-piece rate
7 by a penny, and only the single piece, none of the
8 other rates, what would be the impact on the average
9 household that mails 3.6 pieces a week?

10 A Thank you. 3.6 cents.

11 Q 3.6 cents. Would you accept that 3.6 cents
12 times 52 equals a \$1.87 a year?

13 A I'll accept your math.

14 Q So is it fair to say that the impact on an
15 average household, if one were to increase the single-
16 piece rate, and only single-piece rate, by a penny,
17 would be a \$1.87 per year?

18 A Yes, but I would also say that households
19 are not just the only people who use the mail, first-
20 class mail, and there are an awful lot of them.

21 Q That's true. It would follow, then, would
22 it not, that if one lowered the single-piece rate by a
23 penny, that the impact on an average household would
24 be also be \$1.87, which is to say that an average
25 household would say \$1.87 in postage a year?

1 A Given your example, yes.

2 Q Isn't that about the price of two cans of
3 Coke from a vending machine?

4 A Depending on the vending machine.

5 Q That's right. It could be a lot less or
6 maybe even a little more. It depends.

7 So is it fair to say that the impact of a
8 penny shift in the first-class stamp, one way or
9 another, is about the equivalent of two cans of Coke
10 or Pepsi -- we don't want to be prejudiced here -- per
11 year?

12 A On a household basis that you've given as an
13 example?

14 Q Yes.

15 A That could be true, yes.

16 Q Okay. I just wanted to quantify that a
17 little bit to give us all just some sense of what the
18 fiscal impact is because in other areas, electrical or
19 gas rates, the impact on consumer pricing often is
20 much larger.

21 I would like to turn to another line of
22 questioning, if I could. If you could turn to
23 **ABA-NAPMOCAT-4-3.**

24 A Yes, I have that.

25 Q Okay. In this question, we ask that, please

1 assume that there are two postal products, Product A
2 and Product B, and that Product A costs, per unit, \$10
3 to supply while Product B costs \$1.00 to supply.
4 Thus, there is a \$9.00 cost difference between Product A
5 and Product B.

6 It also asks you to assume that 10 cents of
7 that \$9.00 cost difference was due to avoided costs,
8 and the remaining \$8.90 of the cost difference was due
9 to other cost drivers, whatever they may be.

10 The question asks, "It's your position that
11 the Postal Service should set the discount for Product
12 B only at 100 percent of the avoided costs, thus
13 recognizing only 10 cents of the cost difference that
14 was due to avoided costs and ignoring the remaining
15 \$8.90." And you answered, "If Product A and Product B
16 are in the same subclass, and the 10 cents is based on
17 mail-processing and delivery **cost** savings, then **yes**."
18 Is that correct?

19 A That is correct.

20 Q Now, is that still your answer today?

21 A That's correct.

22 Q SO you're saying, just so I understand, that
23 if something costs 10 bucks, if something costs \$1.00,
24 and they are in the same subclass, you should only
25 recognize a dime of the \$9.00 cost difference and

1 ignore the rest of it.

2 A If those are the mail-processing and
3 delivery costs that have been avoided, yes.

4 Q Isn't that a bit rigid?

5 A NO.

6 Q How would you justify that, then, to ignore
7 \$8.90 of cost difference and only say you should
8 recognize a dime when there is \$9.00 worth of cost
9 difference?

10 A When you're talking about first-class mail,
11 and let's take it a little more specifically, presort
12 versus first class, the Commission has determined what
13 are going to be the cost avoidances, and that is mail
14 processing and delivery.

15 The other costs, because first class has
16 been established as providing uniform rates throughout
17 the nation, the discounts don't need to be anything
18 other than what the Commission has stated.

19 Q So you're saying that, if we go back to this
20 example where we're just talking about two products,
21 to keep it more objective, so you're saying that the
22 key is the fact that two products are in the same
23 class.

24 A Subclass, yes.

25 Q In the same subclass. So the magic for your

1 position, you think, is, or the magic to separate the
2 two and recognize the costs would be a separate
3 subclass. Is that right?

4 A That's a possibility.

5 Q Under what other circumstances would you
6 recognize that other \$8.90 worth of costs besides the
7 separate subclass? Remember, they are not avoided
8 costs, by definition.

9 A Correct. You know, first class has been set
10 up as a monopoly

11 Q Let's keep this just in terms of just two
12 products, A and B.

13 A Well, if you're referring to some class,
14 you're kind of referring to mail.

15 Q Right, two products in the same subclass.

16 A Well, if they are in the same subclass, then
17 -- wasn't your question, if they are in different
18 subclasses?

19 Q No. I'm saying that, for you, the key is
20 them being in the same class, and the only way you
21 would recognize \$8.90, or have the Commission
22 recognize the \$8.90, would be if you broke them out
23 into separate subclasses. Is that right?

24 A That's a possibility of the Commission
25 recognizing --

1 Q Is there any other possibility?

2 A Off the top of my head, I can't think of
3 anything.

4 Q Okay. In other words, it's basically,
5 you're saying, a separate subclass or nothing.

6 A If you have two different products.

7 Q Right. In other words, just to be clear,
8 there's two separate products in a class, \$10.00 and
9 \$1.00, and you're saying the only way to recognize the
10 different cost characteristics, or the only way the
11 Commission should recognize the differing cost
12 characteristics, is if they broke them out into
13 separate subclasses. Is that right?

14 A I believe that's correct.

15 Q I'm not trying to be tricky here.

16 A Okay.

17 Q I'm just trying to say it straight.

18 Okay. Now, are you familiar with the test
19 for separate subclass status?

20 A No, I'm not.

21 Q would you accept, subject to check, that
22 it's a two-part test, one keyed on separate cost
23 characteristics and the other part keyed on
24 sufficiently different demand characteristics?

25 A I'll accept that you're telling me

1 correctly.

2 Q Okay. Now, when mail is broken out into a
3 separate subclass, isn't it correct that it's priced
4 separately from two different angles, which is to say
5 that, from one angle, its separate cost structure is
6 recognized, and from the other angle, its separate
7 demand characteristic is recognized?

8 A I can't talk about costs because I'm really
9 not familiar with how the costs are established in
10 relation. I mean, I've used rates or costs that were
11 provided, and how those costs were derived, I cannot
12 say.

13 Q I guess what I'm suggesting is that, in this
14 case, in terms of bulk business mail, the Postal
15 Service is proposing to price it separately from only
16 one angle; that is to say, it's proposing to recognize
17 the separate cost characteristics. It is not
18 proposing to recognize separate demand
19 characteristics, and it's not proposing to recognize
20 that because it's positing a separate contribution per
21 piece, which means any different demand
22 characteristics is not part of it.

23 Now, if they are doing that, doesn't it seem
24 appropriate that if one is only going to recognize one
25 of the two cost characteristics, cost but not demand,

1 that one need not pass the bifurcated subclass test?

2 A I can't answer that. I'm not an economist,
3 and it sounds like you're asking me about demand.

4 Q You've testified, though, that you don't
5 think that the Postal Service should recognize the
6 separate cost characteristics of bulk business first-
7 class mail unless it's broken out into a separate
8 subclass.

9 A Where do I say that?

10 Q Well, I thought, at the beginning, you were
11 saying that the reason that one should not recognize -
12 - I thought we established that at the beginning. You
13 said, The reason one should not recognize the \$8.90
14 was because they were in the same subclass and that
15 the only circumstances where one should recognize the
16 \$8.90 worth of cost difference would be if you broke
17 Product A and B out into separate subclasses.

18 A And I said that's a possibility.

19 Q Okay. Now, in my hypothetical situation,
20 that \$8.90 of cost difference in the same subclass was
21 not an avoided cost.

22 A Okay.

23 Q Correct?

24 A That's correct

25 Q And you were saying that you should

1 recognize only avoided costs. Is that correct?

2 A The costs that the Commission has determined
3 as costs avoided, which is the mail-processing and the
4 delivery costs.

5 Q And that's the only costs that the
6 Commission should recognize.

7 A No. The Commission, in the past, has said
8 that. I mean, they are free to choose whatever
9 changes they want to make.

10 Q Is shape an avoided cost characteristic?

11 A I know there is a difference in processing.
12 From an overview perspective, I know that shape does
13 impact costs.

14 Q Shape impacts costs, but in my hypothetical
15 between Product A and B, doesn't that other \$8.90
16 impact costs?

17 A I don't know. The 8.8 is representing --

18 Q It's not avoided costs. It's whatever the
19 other intrinsic cost differences may be.

20 A Okay.

21 Q So, I guess, the question I'm puzzled by is,
22 do you think the Commission should recognize shape in
23 this case?

24 A My proposal says that I believe I'm going
25 along with the Postal Service on shape-based rates.

1 Q What if shape is not an avoided cost? Do
2 you think the Postal Service **should** ignore shape in
3 its rate-setting process?

4 A It has in the past, but it now is
5 recognizing it.

6 Q The question was, what if it is not an
7 avoided cost?

8 A I'm sorry. I've lost the train. When you
9 say, "It's not an avoided cost," regarding what?

10 Q Well, from what I understand, your testimony
11 says that the Postal Service -- at least the answer to
12 this interrogatory is that the Postal Service should
13 recognize 100 percent of the avoided costs and only
14 that.

15 A That's my testimony, yes.

16 Q And it follows from that that if you have a
17 cost difference that is not a "avoided cost
18 difference," it should ignore all of those nonavoided
19 cost differences. Is that correct?

20 A Well, if you have cost differences, correct,
21 but you're talking about discounts.

22 Q No, no, no. You're going back to that
23 question that we started off in the beginning with,
24 ABA-NAPMT4-3. That cost, that hypothetical, was
25 geared upon having two products with \$9.00 of cost

1 difference.

2 A And those are just general, from what I
3 understand --

4 Q Nine dollars of cost difference, a dime of
5 which is an avoided cost, and \$8.90 is a nonavoided-
6 cost difference. Your answer to that is you recognize
7 the avoided-cost difference, but the Commission should
8 ignore the other nonavoided cost difference, even if
9 it's \$8.90.

10 A I think that 10 cents was regular. I was
11 assuming you were talking about a discount. You would
12 for discounts, but there are other costs that you
13 consider when *you* develop costs for different
14 categories of mail or different shapes.

15 Q Do you think it would be appropriate for
16 bulk first-class business mail to recognize other cost
17 characteristics in setting rates that were not avoided
18 costs?

19 A The BMM rate, or what BMM has been
20 established, is that mail which *is* most likely to
21 convert to presort or to be converted to from presort.

22 Q But that wasn't the question. The question
23 was --

24 A Sorry. I'm not following your --

25 Q Okay. Let's assume that there is a category

1 of mail called bulk business mail in first class, and
2 it has a cost difference with the other categories of
3 first-class mail, some of which is avoided costs, is
4 due to avoided costs, and some of which is not due to
5 avoided costs.

6 My question to you is, do you think it's
7 appropriate that this Commission recognize the
8 nonavoided cost differences in setting first-class
9 rates?

10 A It's up to the Commission to determine what
11 it should recognize.

12 Q That's true, but do you think the Commission
13 should recognize the non -- let's get this right --
14 the nonavoided cost differerces'?

15 A No.

16 Q Okay. So does it follow that if shape is
17 considered a nonavoided cost difference, you would
18 think that the Commission should not recognize shape
19 because it's not an avoided cost.

20 A The avoided costs, when you're using that
21 term, to me, means mail processing and delivery.
22 Shape is a totally different characteristic.

23 Q Okay. Let's go back to bulk business mail.
24 What if there were certain cost differences that have
25 totally different characteristics? Do you think it's

1 appropriate to recognize them?

2 A I'm not following. Bulk business mail is
3 mail that's most likely to convert.

4 Q No. I'm just saying that there is a group
5 of mail in first class, bulk business mail, that has
6 significant cost characteristics that are not avoided
7 costs; they are other costs like shape. Do you think
8 it's appropriate to recognize those costs, to some
9 degree?

10 A That's up to the Commission.

11 Q But do you think it's appropriate for the
12 Commission to recognize those costs?

13 A Not if it's outside of the realm of the
14 mail-processing and delivery costs. If they want
15 shape-based rates, I'm agreeing with that. I mean,
16 the monopoly exists so that you can provide uniform
17 rates across the country at a reasonable rate in
18 support of universal service.

19 Q Would you accept the proposition that
20 monopolies exist, and regulatory commissions exist, to
21 ensure that the monopoly is not exploited by the
22 monopoly company, that in the marketplace where you
23 have private sector companies, competition regulates
24 each company, but regulatory commissions are necessary
25 where there are monopolies to ensure the monopoly is

1 not exploited by the holder of the monopoly?

2 A When you say "exploited," I'm not quite
3 following. I know the Commission oversees the Postal
4 Service.

5 Q Well, if you have a monopoly, and it's a
6 true monopoly, a monopolist could raise the Postal
7 Rate Commission to extremely high levels, and since
8 the consumer is a captive of the monopoly, the
9 consumer has no choices and is stuck with the
10 monopoly.

11 A That's true.

12 Q So my question is, at whatever level
13 exploitation might occur? Is it this Commission's
14 duty to prevent that monopoly from being exploited,
15 and, obviously, they determine at what level
16 exploitation would occur?

17 A That's true.

18 Q Do you think rates should reflect costs?

19 A I'm not quite sure when you say "reflect."
20 I know that the costs, when you price a product, you
21 have certain costs, and your rates generally are more
22 than the costs in a nonregulated industry.

23 Q What about in a regulated industry?

24 A You have to provide for the institutional
25 costs.

1 MR. BRINKMAN: Okay. I have no further
2 questions, Mr. Chairman.

3 CHAIRMAN OMAS: Thank you, Mr. Brinkmann.
4 Mr. Anderson?

5 MR. ANDERSON: Could I have one moment, Mr.
6 Chairman?

7 CHAIRMAN OMAS: Yes.

8 MR. ANDERSON: Thank you.

9 (Pause.)

10 MR. TIDWELL: While we have a minute, I just
11 wanted to observe that Mr. Heselton passed me a note
12 as I came to counsel's table a little earlier and
13 wanted me to remind Mr. Buc that his end-of-year
14 review of Mr. Buc's performance will be reflected in
15 the Postal Service's briefs in this proceeding.

16 CHAIRMAN OMAS: We will be sure to include
17 that into the evidentiary record.

18 Mr. Anderson?

19 MR. ANDERSON: Thank you, Mr. Chairman. I
20 think this is just one follow-up question.

21 Mr. Brinkmann mentioned test for a separate
22 subclass, including consideration --

23 CHAIRMAN OMAS: Excuse me. Mr. Anderson,
24 we're not on follow-up yet. Mr. Tidwell has a right
25 to cross.

1 MR. ANDERSON: I beg your pardon, Mr.
2 Chairman.

3 CHAIRMAN OMAS: Okay. Mr. Tidwell. I'm
4 sorry. I didn't realize he was crossing.

5 CROSS-EXAMINATION

6 BY MR. TIDWELL:

7 Q Good afternoon, Mr. Chairman, and good
8 afternoon, Ms. Thompson. Michael Tidwell on behalf of
9 the U.S. Postal Service.

10 You had some discussion with Mr. Brinkmann a
11 few minutes ago about the postal monopoly and its
12 impact on postal rate-making. I would like to explore
13 some of that for a few minutes here.

14 CHAIRMAN OMAS: I'm sorry. I didn't see him
15 sitting at the table. Mr. Hall, are you ready?

16 MR. HALL: I just wanted to give Mr. Tidwell
17 the benefit of the position that the Postal Service
18 usually has in cross-examination. So if he doesn't
19 object, I'll go ahead.

20 CHAIRMAN OMAS: I'm sorry, Mr. Hall. You
21 weren't at the desk. I just --

22 (Discussion held off the record.)

23 MR. SCANLON: Mr. Chairman, for the purpose
24 of scheduling, Pitney Bowes has also designated Ms.
25 Thompson for some brief cross-examination.

1 CHAIRMAN OMAS: I'm sorry. Yes, I have you
2 down. There were the people here, and sometimes
3 people do not cross-examine, and I was just assuming
4 that. Okay. All right. Mr. Hall.

5 CROSS-EXAMINATION

6 BY MR. HALL:

7 Q Good afternoon, I guess it is.

8 A Good afternoon.

9 Q My name is Mike Hall, and I represent Major
10 Mailers, and I'll be asking you some questions today.

11 CHAIRMAN OMAS: Your mike, Mr. Hall. Your
12 mike.

13 BY MR. HALL:

14 Q So let's begin by turning to your response
15 to MMA/OCA-T-4-4.

16 A I have it.

17 Q I've got to say that I'm a little puzzled by
18 your response. We didn't ask you whether or not your
19 proposal was revenue neutral.. Ail we asked for was
20 three very specific pieces of information about
21 revenue losses and gains that result from your
22 proposals. Did you understand that to be what we were
23 asking?

24 A I was assuming -- I'm not necessarily saying
25 that one is losing, or another one is gaining. I'm

1 seeing it as a whole picture.

2 Q And we wanted to break down the picture into
3 its different elements. For example, you have a
4 proposal, don't you, to eliminate the additional ounce
5 rate for single-piece letters weighing up to four
6 ounces.

7 A That is correct.

8 Q What is the revenue that will be lost as a
9 result of adoption of your proposal?

10 A Are you saying from first class?

11 Q Yes. First-class, single-piece letters
12 weighing up to four ounces.

13 A I think there is, according to my response
14 to -- I believe it was your first -- no, it was
15 APA's -- ABA -- I'm sorry -- NAPMT-4-1. I cannot, off
16 the top of my head, say how much is being lost, but I
17 don't think any mail cost is being lost. The
18 additional ounce rates have been factored into my rate
19 schedule.

20 Q Exactly, but your rate proposal consists of
21 at least these three elements, doesn't it?

22 A What three elements?

23 Q The ones addressed in Parts A, B, and C of
24 Interrogatory MMA/OCA-T-4-4. I don't want you to be
25 doing this on the spot.

1 A Right. I don't have those specific numbers
2 with me.

3 Q Okay. Would you please provide them for the
4 record? Thank you.

5 Now, in several of your interrogatory
6 responses to MMA, for example, perhaps a part of
7 eight, certainly nine through 15, you emphasize the
8 fact that your testimony only relies on the summary
9 worksheet of the revised **USPS-LR-L-141** specific date
10 and whatever.

11 A That is correct.

12 Q And so the summary worksheet -- you go on to
13 say, "I didn't analyze any of the other pages."

14 A That is correct.

15 Q Okay. But you recognize that the summary
16 sheet that you're relying upon is built upon other
17 information contained in the other pages of the
18 library reference.

19 A Most likely that's correct.

20 Q Okay. I don't know how to do this other
21 than just to ask you to accept something subject to
22 check, unless you tell me there is another cost
23 witness.

24 A No. There is no cost witness.

25 Q Okay. Well, then I would like to have you

1 accept, subject to check, that nonwork-sharing, fixed
2 costs of BMM are 1.719 cents. You will find that on
3 page 2 of the library reference 141, and --

4 MR. COSTICH: Mr. Chairman, if counsel is
5 simply going to read into the record a bunch of
6 numbers that this witness has already said she is not
7 familiar with, the OCA objects.

8 CHAIRMAN OMAS: Would you repeat the
9 question once more, Mr. Hall?

10 MR. HALL: Yes. I'm simply --

11 CHAIRMAN OMAS: I do agree with, if you're
12 just going to read numbers that she said she does not
13 know or cannot substantiate, then I would ask you to
14 move on.

15 MR. HALL: Well, then I guess OCA could
16 stipulate to the numbers.

17 MR. COSTICH: The numbers are what they are.
18 There is nothing to stipulate; they are here.

19 MR. HALL: Okay. So --

20 CHAIRMAN OMAS: What is the line of
21 questioning here?

22 MR. HALL: I was trying to establish a
23 comparison of BMM and automation letters and the cost
24 of nonwork-sharing, fixed-cost pools. They are
25 classified that way in library reference 141.

1 MR. COSTICH: These questions were asked on
2 discovery, and the witness responded she didn't have
3 any familiarity with those numbers. MMA will have the
4 opportunity to introduce rebuttal and introduce those
5 numbers as it sees fit, but cross-examination is not
6 the place to make one's direct case.

7 MR. HALL: We don't have an ongoing
8 controversy here. I already said I would --

9 CHAIRMAN O W : All right. Would you move
10 along, Mr. Hall?

11 MR. HALL: Yes.

12 BY MR. HALL:

13 Q In response to an MMA interrogatory, you
14 indicated that you were proposing a discount for QBRM
15 of 2.5 cents. Is that correct?

16 A I adopted the Postal Service's proposal.

17 Q Okay. And if the Postal Service's proposal
18 was for two cents, you would have adopted that.

19 A Yes. I think that's what has been used in
20 the past, two to two and a half, prior to the
21 settlement cases.

22 Q So you're saying that, in, I guess it's R-
23 2000-1, that the QBRM discount **from** the basic, first-
24 class, single-piece rate was 2.5 cents.

25 A Can you refer me to the question where you

1 asked that because I'm not sure. I believe I --

2 Q It was your answer.

3 A I know, but I'm asking, which question?

4 Q We'll do our best to locate it here.

5 (Pause.)

6 MR. HALL: It's number 14 - I'm sorry --

7 4(d).

8 THE WITNESS: 4(d)? Off the top of my head,
9 I do not remember what the exact difference was in
10 R2000-1, whether it was 2.5 or what. I think that was
11 your question to me.

12 BY MR. HALL:

13 Q Your answer was --

14 A -- that I proposed a two and a half -- the
15 two-cent. I have adopted the two cent or two-and-a-
16 half-cent discount for QBRM in this case.

17 Q Could you read your answer to the
18 interrogatory, please?

19 A Yes. "I did not make a new calculation for
20 the QBRM rate. USPS Witness Tafique, at page 24 of
21 his testimony, indicates that the discount of 2.5
22 cents is the same discount that prevailed prior to the
23 across-the-board rate increases. Thus, I felt 39.5
24 cents was appropriate.

25 Q And you thought it was appropriate because

1 it's your understanding that that was the discount
2 before the across-the-board rate increase, and, by the
3 way, we're talking about R2005-1.

4 A R2005-1 was -- I don't know what that -- do
5 you mean before R2005-1?

6 Q Right.

7 A Or ER2000-1?

8 Q Well, we also had R2001-1, but I think you
9 swept that into your notation of one of the cases that
10 was settled.

11 A Correct.

12 Q Right.

13 A I know, in the past, when I was reading
14 prior Commission opinions, they were agreeable to a
15 two-to-two-and-a-half cent discount. I don't know off
16 the top of my head, in R2000-1, if they used two and a
17 half or three, you know, what exactly that number was.

18 Q But whatever that number was, you would
19 support it.

20 A I would support the two-and-a-half-cent
21 discount.

22 Q So, then your answer about what went before,
23 that it was appropriate because that's what was in
24 effect before the settlement cases; that has no
25 bearing on your recommendation.

1 A No. I'm agreeing with Tafique because
2 that's what he has said that the Commission has done
3 in prior cases.

4 Q Okay. Well, I think Mr. Tafique corrected
5 his testimony.

6 A I'm not aware of it. I apologize.

7 Q What was in effect beforehand was three
8 cents.

9 A All right.

10 Q So can we assume that that's what you will
11 support?

12 A I'm supporting two and a half cents. That's
13 what my rate proposal does.

14 Q so, in other words, you would like to change
15 your answer.

16 A No. I'm sticking with what my original was,
17 but when I went back and looked at prior Commission
18 opinions, I was under the impression that they were
19 going with two to two and a half. Now, I believe you
20 said that, in R2000-1, they used three. My rate
21 proposal uses two and a half.

22 Q But you would like to change the reasoning
23 in your answer.

24 A Well, if Tafique charged his answer, then,
25 yes, I would have to change mine.

1 Q So if he said three, you would have to say
2 three.

3 A I would have to go back to what I just told
4 you.

5 Q Okay. With respect to library reference 141
6 that you rely upon --

7 A Yes.

8 Q -- the summary sheet that you rely upon for
9 your analysis and cost savings, is it your
10 understanding that the methodologies reflected in
11 there have been approved by the Commission?

12 A No. I think that question was asked of me,
13 and it's my understanding that this was an update of
14 the information provided in R2005-1.

15 Q Which case was settled. Right?

16 A Yes.

17 MR. HALL: Those are all of my questions.
18 Thank you.

19 CHAIRMAN OMAS: Thank you, Mr. Hall.

20 Mr. Levy? Mr. Scanlon.

21 MR. SCANLON: Thank you, Mr. Chairman.

22 CROSS-EXAMINATION

23 BY MR. SCANLON:

24 Q Michael Scanlon on behalf of Pitney Bowes.
25 Hello, Ms. Thompson.

1 A Hello.

2 Q I would like to talk to you today about the
3 alternative rate schedule that you proposed for first-
4 class letters --

5 A Yes.

6 Q -- and I would like to focus specifically on
7 the mail-processing cost avoidances that you relied
8 upon to support the alternative rate proposal.

9 A All right.

10 Q I would like, if you would, to please refer
11 to page 1 of Appendix B of your testimony.

12 A I have that.

13 Q Okay. And page 1 of Appendix B is your
14 proposed rate schedule for first-class mail, letters,
15 and sealed parcels. Is that correct?

16 A Yes.

17 Q Okay. And with respect to first-class
18 automation letter rates, can you please refer to
19 Interrogatory **PBOCAT4-1**?

20 A I'm sorry. Which interrogatory?

21 Q Pitney Bowes **OCAT4-1**.

22 A Oh, I'm sorry. Okay.

23 Q **And**, in particular, if you would focus on
24 1 (a), please.

25 A Okay

1 Q In your answer to PBOCAT4-1(a), you confirm
2 that you agree that discounts should be based on the
3 costs avoided. Is that correct?

4 A Yes.

5 Q And with respect to Subsection (b) of the
6 same interrogatory, you further confirm that you
7 believe that rates should be set so that the discounts
8 pass through 100 percent of the avoided costs. Is
9 that correct?

10 A That is correct.

11 Q Okay. And, in fact, as confirmed in your
12 response to Subsection (c) of the same interrogatory,
13 you agree that, under the alternative rate schedule
14 that you proposed, that the rates for AADC letter
15 automation mail, three-digit letter automation mail
16 and five-digit letter automation mail, all pass
17 through 100 percent of the estimated cost avoidance.
18 Is that correct?

19 A That is correct, in my testimony.

20 Q Now, I would like to turn your attention to
21 the basis for those cost-avoidance estimates. Okay?

22 A Uh-huh.

23 Q In particular, I would like to refer again
24 to Subsection (c) of PBOCAT4-1-C, in which you stated
25 that you relied on the Postal Rate Commission's

1 methodology of projected cost savings, as shown in the
2 summary sheet of **USPSLRL-141**, and this is consistent
3 with the colloquy that you had earlier with Mr.
4 Brinkmann and Mr. Hall.

5 A Right.

6 Q Okay. In response to Interrogatory
7 **MMA/OCAT4-9**, if you would refer to that, please.

8 A I'm sorry. Which one?

9 Q **MMA/OCAT4-9**. In response to that
10 interrogatory, you stated specifically that you relied
11 on the summary sheet of **LRL-141**, but you did not
12 analyze the cost pools independently, nor did you
13 analyze the derivation of other costs.

14 A That is correct.

15 Q Okay. And so your cost estimates, then,
16 that underpin the alternative rate schedule that you
17 propose are based on the Postal Service's costs. Is
18 that correct?

19 A As presented in library reference **141**.

20 Q Okay. Bearing that in mind, let's, then,
21 turn to the Postal Service cost methodology for
22 calculating cost avoidances. In particular, would you
23 agree that, under the Postal Service methodology for
24 calculating cost avoidances, that only the modeled
25 costs for mail processing and handling activities can

1 form the basis of rate differences between rate
2 categories?

3 A I'm not qualified to discuss the costs. I
4 did not analyze the pools or the costs under them, and
5 I did not analyze what the Postal Service, how they
6 came up with their costs.

7 Q Okay. Subject to check, then, through the
8 testimony produced by the Postal Service's cost
9 witness, Mr. Adburahman, would you agree that, under
10 the Postal Service methodology, only the modeled costs
11 can form the basis between rate categories?

12 A Subject to check, yes.

13 Q And, again, with the same condition, subject
14 to check, Mr. Abdurahman's testimony in response to
15 written discovery and his oral testimony, the Postal
16 Service did not, in fact, model all of the costs but,
17 rather, labeled the costs as either proportional or
18 fixed and modeled only those costs.that were labeled
19 as proportional.

20 A If you say so.

21 Q Okay. And, again, subject to check, in Mr.
22 Abdurahman's response to written discovery and in his
23 oral testimony, the Postal Service stated that they
24 did not have any independent econometric studies or
25 other operational analyses that substantiate that the

1 cost pools that were labeled as fixed were actually
2 fixed and did not vary with respect to presort.

3 A Again, if you say so.

4 Q Okay. Finally, because you have not
5 independently analyzed the cost pools but, rather,
6 have relied on the Postal Service's cost calculations,
7 doesn't it necessarily follow that if the Postal
8 Service missed some of the costs, those costs would
9 also be missing in your cost-avoidance estimates.

10 A If they made an error in theirs, yes, mine -

11

12 Q That error would be replicated in your
13 alternative proposal.

14 A In the cost discounts I use.

15 MR. SCANLON: Yes. Okay. No further
16 questions, Mr. Chairman.

17 CHAIRMAN OMAS: Thank you, Mr. Scanlon.

18 Mr. Tidwell, I think we've come to you. And
19 by the way, to the participants, I do apologize. I
20 was looking at the table, and I guess it was wishful
21 thinking that I thought you were the only people. So
22 I do apologize for not following my script because I
23 am scripted up here, believe me, so I do apologize to
24 Mr. Tidwell.

25 //

1 CROSS-EXAMINATION

2 BY MR. TIDWELL:

3 Q Good afternoon again, Mr. Chairman and Ms.
4 Thompson. Take a look at, if you will, page 3 of your
5 testimony, and there I want to focus on, way down at
6 the bottom of the page, line 21, where you state that
7 the letter monopoly exists to hold down rates for the
8 more costly pieces of mail and provide mail service to
9 all. When you used the term "monopoly," you were
10 referring to the private express statutes. Correct?

11 A I'm not a lawyer, so I don't know what the
12 private express statutes refer to, but if they are
13 referring to the monopoly, yes.

14 Q Okay. In the sentence that I just quoted,
15 are you referring to first-class mail and first-class
16 mail service or to all mail and all mail service?

17 A To first class.

18 Q So you don't have enough familiarity with
19 the particular revisions of the private express
20 statutes to be able to inform us which ones you were
21 relying on, in particular, then.

22 A No. I'm not a lawyer.

23 Q Turn your attention, then, to page 4 of your
24 testimony, particularly lines four through six.
25 There, you testify that, under the monopoly, those

1 mailers that might otherwise be eligible for large
2 discounts should not be given deeper discounts because
3 first-class exists to provide a reasonably priced mail
4 stream in support of universal service. Do you see
5 that?

6 A Yes, I do.

7 Q Again, in that sentence, are you referring
8 to any mailers other than first-class mail users?

9 A My testimony only refers to first class.

10 Q Do you know whether or not the private
11 express statutes are interpreted by the Postal Service
12 to apply to matter differently, depending on whether
13 it would be mail, a single piece, or work-shared
14 first-class mail?

15 A I can't speak for the Postal Service.

16 Q Well, are you aware of any Postal Service
17 interpretations? Are you aware that the Postal
18 Service interprets the statutes'?

19 A No. I'm not familiar.

20 Q Have you read the statutes?

21 A Which particular one are you referring to?

22 Q The private express statutes.

23 A Can you give me a number because --

24 Q 39 U.S.C. § 601 to 6067

25 A Thirty-nine, no. I'm just familiar with the

1 3622.

2 Q You wouldn't, then, be familiar with 18
3 U.S.C. § 1693 to 1699.

4 A No. I'm not familiar with those.

5 Q Well, in the quoted passage on page 4, you
6 talk about sort of the interaction between rate-making
7 and universal service. I would like to ask a few
8 questions in that regard.

9 Assume that the Postal Rate Commission was
10 trying to design rates, and it was choosing between
11 marking up single-piece, first-class mail by giving it
12 either a 180-percent or a 220-percent cost coverage.
13 Which of those cost coverages, in your opinion, the
14 180 percent or 220 percent, all else equal, would
15 shoulder more of the cost of universal service?

16 A If it was marked up 220 percent, I think
17 that would be higher than the 180.

18 Q I would agree that 220 is higher than 180,
19 but which of them would you regard as shouldering more
20 of the burden of the cost of universal service?

21 A The cost of universal service allows the
22 monopoly, and so it's really -- if you're saying one
23 shoulders it more than another, it depends on the
24 basis upon which you're figuring that calculation
25 because 180 percent of one number versus 220 might be

1 different.

2 Q Versus 220 of the same number?

3 A Okay. If you're saying the same number,
4 then the 220 would have more of supporting universal
5 service.

6 Q I would like to follow that up with a very
7 simple hypothetical scenario. Assume that there are
8 two first-class mail rate categories, A and B, and A
9 has a unit-attributable cost of 10 cents, and B has a
10 unit-attributable cost of 15 cents. So for A, 10 cent
11 unit-attributable cost; B, 15 cent unit-attributable
12 cost. **And** assume that the Commission reviews the
13 rate-making criteria and assigns each of these rate
14 categories a unit-institutional cost of 10 cents per
15 piece on a unit basis. Which category makes the
16 greater contribution to institutional cost?

17 A B probably would. I'm sorry. It's a 100-
18 percent markup versus 150. Probably A.

19 Q And under this scenario, which rate category
20 makes the greater contribution to the cost of
21 universal service?

22 A That which has the higher cost coverage
23 would. **And** I'm sorry. I think I misspoke on your
24 other one. B would be making the larger contribution,
25 if I'm not mistaken.

1 Q The larger contribution to institutional
2 costs?

3 A Yes.

4 Q And, therefore, in your judgment, making the
5 large contribution to the cost of universal service.

6 A Correct, if it's covering its costs, yes,
7 but I'm not looking at the unit contribution to
8 institutional costs in my testimony. I'm looking more
9 at making sure that you have the BMM benchmark.

10 Q I'm just trying to focus on that part of
11 your testimony that talks about the relationship
12 between rate-making and the cost of providing
13 universal service.

14 A Okay.

15 Q I would like to now turn my attention to
16 your rate design, your first-class mail rate design
17 and, particularly, your proposed treatment for
18 additional ounce rates. Would it be fair to say that
19 customer convenience is the primary motivation behind
20 your proposal to reduce the number of first-class
21 mail, additional-ounce rate sales?

22 A That's correct.

23 Q In deciding upon these four-ounce
24 increments, did you consider any alternatives, such as
25 three-ounce increments or two-ounce increments?

1 A I asked the Postal Service about 3.5,
2 volumes from zero to 3.5, but they weren't able to
3 provide those, so I went to zero to four.

4 Q And so you considered no other.

5 A That is correct.

6 Q I'm sort of glad you're the witness today
7 and not your boss because if I asked your boss this
8 question, I think I would get a troubling and
9 disturbing answer.

10 A Uh-oh.

11 Q Do you use first-class mail to pay any of
12 your monthly bills?

13 A Yes, I do.

14 Q Thank you. After enclosing a check in a
15 return invoice, in a courtesy reply envelope, how
16 often do you feel the need to weigh the mail piece
17 before affixing postage and mailing it?

18 A I don't.

19 Q Do you think that you're a typical mailer in
20 that regard?

21 A For a bill, yes, if I'm only returning the
22 invoice and the check.

23 Q Well, let's assume that the Commission
24 recommended, and the governors approved, and the
25 Postal Service implemented your rate design proposal,

1 and we're in the future, and you're paying your bills
2 through the Postal Service, thank you. How much less
3 frequently do you think you would need to weigh your
4 bills in order to determine the postage?

5 A It depends on if the invoices got heavier,
6 and my checks' paper stayed the same.

7 Q You've got some reason to expect, in a test
8 year, that your invoices are going to balloon to four
9 ounces?

10 A I would hope not.

11 Q And I take it, you send greeting cards
12 through the mail.

13 A Yes, I do.

14 Q And you use the envelopes provided by the
15 good people at Hallmark or Shoebox or whoever prints
16 the cards.

17 A They will be happy to know that I do.

18 Q Okay. Have you ever observed envelopes that
19 they produce that indicate in the upper-right-hand
20 corner the need for additional postage, either because
21 the card is nonmachinable or because it will be
22 heavier than an ounce?

23 A Yes, I do.

24 Q When you don't see such an indication on an
25 envelope, do you feel inclined to weigh it before

1 determining how much postage to affix?

2 A It depends.

3 Q On?

4 A The thickness of the mail piece, if I
5 believe that the envelope is correct.

6 Q Are you focusing, then, on the thickness
7 criterion?

8 A Well, the weight. Sometimes your envelopes
9 aren't always matched to your Hallmark card; at least
10 they haven't in mine because they were mixed up. So
11 there are occasions when I would weigh it just to be
12 safe.

13 Q Take a look at your response to Postal
14 Service Interrogatory No. 4. Do you have that?

15 A Yes, I do.

16 Q Okay. I want you to pay particular
17 attention to your response to Subpart (h).

18 A All right.

19 Q Now, I think I'm correct that for one-ounce,
20 first-class mail parcels, for which the Postal Service
21 proposes a 52 cent rate, you propose a rate of \$1.68.
22 Is that correct?

23 A That is correct.

24 Q In response to Subpart (h), you describe
25 your proposal as one that mailers may find "shocking"

1 and that this may lead them to see ways to
2 consolidate. What mailers did you have in mind when
3 you made that statement?

4 A Those mailers that are mailing parcels.

5 Q I mean, are you thinking in terms of all
6 first-class mailers or small businesses or households?

7 A Anyone that would be mailing a volume of
8 small parcels.

9 Q And what opportunities do you think they
10 would have available to them in a test year to seek to
11 consolidate their mail pieces?

12 A I don't know. They would probably be pretty
13 resourceful, but I don't have any information on that

14 MR. TIDWELL: We have no further questions.

15 CHAIRMAN OMAS: Thank you, Mr. Tidwell.

16 Is there anyone else who wishes to cross-
17 examine the witness? Mr. Anderson?

18 MR. ANDERSON: Thank you, Mr. Chairman.

19 CROSS-EXAMINATION

20 BY MR. ANDERSON:

21 Q Ms. Thompson, I'm Darryl Anderson
22 representing the APWU. I just have one follow-up
23 question to something that Mr. Brinkmann was talking
24 to you about. He alluded to separate subclasses of
25 mail and that you responded in part by making

1 reference to universal service.

2 If the Commission were to pick up on Mr.
3 Brinkmann's implicit suggestion, which he may make
4 explicit somewhere else, I suppose, and create a
5 subclass for business mail, separating out single-
6 piece mail, with the result that single-piece letter
7 rates increased in price varied substantially. In
8 your view, would that change universal service at
9 uniform rates, as we understand it?

10 A Yes.

11 Q And would you agree with me that that's a
12 policy decision that the Commission might consider
13 leaving to Congress?

14 A Surely.

15 MR. ANDERSON: Thank you. That's all I
16 have.

17 CHAIRMAN OMAS: Is there anyone else who
18 wishes to cross-examine?

19 (No response.)

20 CHAIRMAN OMAS: Are there questions from the
21 bench? Commissioner Goldway.

22 COMMISSIONER GOLDWAY: Thank you. I'm not
23 sure you can answer this, but in addressing the issue
24 of the small amount of savings any one household would
25 get from a reduction from 42 cents to 41 cents, do you

1 have any idea of how many small businesses rely on the
2 mail and use the mail for sending out invoices and
3 collecting invoices and what the monthly impact to
4 small businesses might be with a reduction of one
5 cent?

6 THE WITNESS: No, I do not know.

7 COMMISSIONER GOLDWAY: In your view, does
8 the OCA consider constituents' uses of the mail other
9 than just single households?

10 THE WITNESS: Yes. Small businesses would
11 be one.

12 COMMISSIONER GOLDWAY: So some focus on
13 reducing their expenditures might be worthwhile.

14 THE WITNESS: Correct.

15 COMMISSIONER GOLDWAY. And they are not
16 represented here at these meetings, are they?

17 THE WITNESS: That's correct.

18 COMMISSIONER GOLDWAY: Another issue would
19 be the relative burden of institutional cost that is
20 put on different classes of mail. Would your proposal
21 to reduce the first-class mail to 41 cents shift some
22 of the burden of institutional costs for mail?

23 THE WITNESS: I'm not proposing 41 cents for
24 first class.

25 COMMISSIONER GOLDWAY: That's the APWU.

1 Right? Sorry.

2 THE WITNESS: You scared me a minute.

3 COMMISSIONER GOLDWAY: No, no. That's
4 right. Would your proposal to have a four-ounce --

5 THE WITNESS: -- weight increment?

6 COMMISSIONER GOLDWAY: -- weight increment
7 change the balance of institutional coverage for
8 first-class mail versus other classes of mail?

9 THE WITNESS: No, it would not.

10 COMMISSIONER GOLDWAY: You're not adjusting
11 anything with regard to that.

12 THE WITNESS: No. My proposal is basically
13 revenue neutral.

14 COMMISSIONER GOLDWAY: What was the reason
15 for the proposal, then?

16 THE WITNESS: My proposal was to eliminate
17 the additional ounce rate and to propose rates based
18 on the BMM benchmark.

19 COMMISSIONER GOLDWAY: Was there a reason
20 why you thought that would be more beneficial?

21 THE WITNESS: The Commission has always used
22 the BMM benchmark as the appropriate benchmark for
23 setting presort rates, and that's what I was doing.

24 COMMISSIONER GOLDWAY: By eliminating the
25 second-ounce cost and creating a proposal for one to

1 four ounces, you could create a proposal that went
2 back to the benchmark but was revenue neutral. Is
3 that the reason?

4 THE WITNESS: That's correct.

5 COMMISSIONER GOLDWAY: Okay. Thank you.

6 CHAIRMAN OMAS: Are there any additional
7 questions?

8 COMMISSIONER GOLDWAY: Just one other.
9 Sorry.

10 CHAIRMAN OMAS: Commissioner Goldway.

11 COMMISSIONER GOLDWAY: With the four ounces,
12 are there any other postal services that you're aware
13 of who have a similar kind of pricing mechanism?

14 THE WITNESS: I'm aware that they have
15 certain -- I think, in England, where it's up to a
16 weight, that it goes for a certain postage, but beyond
17 that, I'm not sure exactly of what those rates are.

18 COMMISSIONER GOLDWAY: Thank you. That's
19 all. Sorry. That was it for sure, the last one.

20 CHAIRMAN OMAS: Mr. Costich, would you like
21 some time with your witness?

22 MR. COSTICH: Could we have five minutes?

23 CHAIRMAN OMAS: Absolutely.

24 (Whereupon, a short recess was taken.)

25 CHAIRMAN OMAS: Mr. Costich?

1 MR. COSTICH: Thank you, Mr. Chairman. The
2 OCA has no questions.

3 CHAIRMAN OMAS: Thank you very much.

4 Ms. Thompson, that completes your testimony
5 here today, and we do appreciate your appearance and
6 your contribution to our record in this case, and,
7 again, thank you, and you are now excused.

8 (Witness excused.)

9 CHAIRMAN OMAS: This concludes today's
10 hearings. We reconvene tomorrow morning at nine-
11 thirty, when we will receive testimony from Witnesses
12 Knight, Martin, Morrissey, Delamy, Callo, Bentley, and
13 Mitchell. Thank you and have a nice evening.

14 (Whereupon, at 3:20 p.m., the hearing in the
15 above-entitled matter was adjourned, to reconvene at
16 9:30 a.m. on Wednesday, October 25, 2006.)

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REPORTER'S CERTIFICATE

DOCKET NO.: R2006-1
CASE TITLE: Postal Rate and Fee Changes
HEARING DATE: October 24, 2005
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the United States Postal Rate Commission.

Date: October 24, 2006



Christina Chesley
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